THE POLITICAL ECONOMY OF UNEMPLOYMENT INSURANCE

A Dissertation

by

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ABSTRACT

In this dissertation, I examine questions of strategic political control through institutional design, government responsiveness to economic insecurity in social context, and opportunistic political control of bureaucratic performance in social insurance programs. I theorize how political divergence and economic forces influence institutional design, and how social and economic factors constrain social insurance generosity. I first offer a formal model of institutional choice— how and why policymakers choose to decentralize social insurance programs. I argue that ideological divergence leads to greater decentralization, and that institutional feedback through the establishment of vested interests encourages greater centralization. A study of the 1935 U.S. Social Security Act illustrates and supports this argument. In the second component of this project, I distinguish between civic and charitable forms of social capital, and I offer a theory of their respective effects on social policy responsiveness to macroeconomic dynamics. With novel data, I find support for my explanation, which challenges the fundamental arguments that Putnam and others have made. Lastly, I reexamine the political economy literature on political budget cycles by more closely considering the administrative mechanisms through which elected officials manipulate the provision of public goods and services. I extend research that points to an electoral cycle in government spending on social transfer programs by incorporating theory from the study of administrative political control. Politicians will be more successful in exerting pressure on bureaucrats to perform better, to be more generous, and more timely in processing unemployment insurance payments in the context of greater electoral competition and macroeconomic insecurity. By approaching unemployment policy institutions from these multiple perspectives, I

further an understanding of the social, political, and economic influences on policies designed to alleviate economic insecurity.

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Completing a doctorate in political science was an unrecognized dream until circumstances left me with little choice in the Spring of 2011. Half of a decade has passed since my return to Texas A&M, and these years unfolded not as I expected. To quote Thoreau, *the price of anything is the amount of life you exchange for it.* It should be no surprise that graduate school has been costly, and it is only with the patience, understanding, and wisdom of so many others that I maintain any hope of completion.

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NOMENCLATURE

CME	Coordinated Market Economy
HRM	Hawes, Rocha, and Meier (2013)
LME	Liberal Market Economy
PAC	Political Administration Cycle
PBC	Political Budget Cycle
SC	Social Capital
SSA	U.S. Social Security Act of 1935
SSI	Social Security Insurance
UI	Unemployment Insurance
VoC	Varieties of Capitalism

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1. INTRODUCTION

Economic risk is a part of everyday life, and an array of policy instruments have evolved to protect citizens from the insecurities inherent in market economies. Institutions of insurance against the risk of health, retirement, injury, or unemployment are found in every developed democratic country, but these programs vary cross-nationally in their structure, organization, generosity, and coverage. The study of social welfare state development, retrenchment, and popular support is of fundamental importance to modern societies facing increasing levels and disparities in the distribution of economic insecurity and risk. In a contribution to the scholarly understanding of government policies aimed to buffer citizens from modern economic insecurity, in this dissertation, I advance theories of the political economy of social insurance.

In the following chapters, I theorize on the process of government policy responses to macro-economic insecurity. I specifically focus on unemployment insurance, as one of the most immediate government responses to economic insecurity. In the first substantive chapter, I model the administrative delegation of social insurance policy through decentralization. I argue that it is the degree of political divergence and political uncertainty that interact to determine how governments institutionalize their policy responses to economic insecurity. In the second chapter, I model policy responses to macroeconomic insecurity as a function of informal social institutions, or in other words, social capital. Lastly, in the third chapter, I theorize on electoral cycles in political control and the effect of opportunistic policy manipulation on bureaucratic performance. By examining policy and administrative through these perspectives, I illuminate the contributions of multiple theoretical traditions in the

current political science understanding of social insurance programs.

In answering three distinct research questions in this dissertation, I argue that the outcomes from policies aimed to alleviate economic insecurity cannot be explained without attention to the political and economic context at every stage of the policy making process. This includes both the design and initial development of public policy, as well as the ongoing functioning of social insurance programs. The choice of policy institution is deliberate, and is decided by economic and political motivations. Once implemented, the responsiveness or the scope of possible change of public programs is constrained by decisions made in early stages of public policy process—when the public program is designed. I further argue that informal social institutions condition the elasticity of public policy to common needs, and I investigate whether policy outputs are responsive to political motivations. Policy making process is a rational process, and only by modeling the process from initial design choices through to the day-to-day political influences on bureaucratic performance can the outputs and real effects of governance be understood.

The intellectual traditions motivating my theoretical arguments cross-cut subfields in political science and draw heavily on theory from economics. My explanation of the development, functional generosity, and cyclical administration of unemployment insurance employs methods and theory from comparative politics, as well as critical insight from the study of public administration. My political economy approach in applying economic principles and theory to the study of political phenomenon is deeply rooted in public choice, historical institutionalism, and collective action theory more generally. Building on the fundamental assumptions of rational choice and rational expectations that shape individual behavior and strategic interaction, I explain government responsiveness to economic insecurity in a way that joins together previously disjointed theories to bring greater clarity and nuance to

the understanding of social policy in political science. I do this by offering three theories of the political economy of public policy.

1.1 The Political Economy of Policy Design

The design and implementation of public policy programs requires the assent and cooperation of multiple political interests. In democratic systems of government, public policy outcomes are often theorized as the outcome of strategic interactions between executives and legislators. These political actors negotiate while exploiting informational advantages to pursue their own self-interest, be it policy or electorally motivated. In political systems with decentralized administration or federal institutions, the negotiation over the design of public programs only grows in complexity.

Because principal policy-makers have limited time and resources to specify rules or execute oversight, they choose administrative agents. Often, lateral delegation is made to an executive agency with the authority to refine details and complete the implementation. Sometimes, however, policy authority is delegated to lower levels of government; it is decentralized. In the first chapter of this dissertation, I draw on theory of political control, institutional choice, the economics of public goods, and comparative theory of political decentralization to explain political principals' choice of agent in delegating authority.

All policy decisions involve trade-offs. In choosing whether to delegate a task, one such trade-off is the balance of cost and uncertainty. Theory of principal-agent interactions demonstrate this (Niskanen 1971). In choosing whether to decentralize administration, trade-offs between efficiency and flexibility also arise (Tiebout 1956). These considerations are further shaped by preexisting and persistent policy institutions, which alter the costs of future policy reversals or alterations (Pierson 1995; Skocpol 1992). When introducing a new policy, then, decision makers confront each

of these (three) trade-offs in choosing how and by whom a policy will be administered. How these considerations are incorporated into a single decision-making process is theoretically unclear, and an explanation requires the integration of these previously distinct theories. In the first chapter of this dissertation, I propose a game theoretic explanation of delegation via decentralization using the U.S. Social Security Act as an illustrative case to arrive at a series of testable empirical hypotheses to motivate future research.

1.2 The Political Economy of Policy Substitution

Where private markets fail to cover risk, social insurance programs step in to offer citizens greater security and welfare. These programs largely arose in the 20th century among advanced democracies to address the uncertainties inherent in life from labor markets, health, and old-age. Extant political economy theory on the development and contemporary generosity of social welfare states rely on rational explanations of economic interests, political institutions, and strategic interaction. In contributing to this literature, I theorize on the informal social institutions that shape coordination within formal institutional arrangements to generate variation in the generosity of social insurance programs.

A burgeoning literature on the study of social capital and public policy outcomes has successfully identified intriguing empirical relationships, but has fallen short in articulating mechanisms or maintaining consistent conceptual definitions. After clarifying my novel definition and general conceptualization of social capital as a set of informal institutions for cooperation, I advance a comparative political economy theory of social insurance coordinated by social capital mechanisms.

In the second chapter of this dissertation, I articulate this theory and I provide support for my argument that social capital serves more than one function in society,

having multidimensional influences on public policy. A "voluntary and charitable" dimension may rival government insurance while a "civic and political" mechanism serves a benevolent push to increase the coverage and responsiveness of social insurance programs. This offers a new perspective on the study of social capital and public policy, suggesting that theories of their relationship should be attentive to the multiple forms this capital may take. This piece of the puzzle also contributes to comparative social welfare policy theory by adding nuance to explanations of generosity within pluralist or liberal market economies.

1.3 The Political Economy of Policy Implementation

Traditional public choice theory has been applied to the study of opportunistic policy cycles for almost as long as political science has existed as a discipline. The same underlying concepts have also been used to explain the application or success of political pressure on bureaucratic behavior— political control. The study of political budget cycles and the study of political control rely on similar fundamental assumptions of rational expectations and political self-interest, and each has produced separately venerable and productive literatures for decades. Indeed, in standard public choice texts these two questions occupy parallel chapters (for example, see Mueller 2003), and yet a theory of electorally motivated cycles of control over public administration has eluded political science to date.

In the third chapter of this dissertation, I develop a theory of electoral cycles in political control of bureaucratic outputs. Politicians should optimize their exploitation of policy tools to maximize their reelection odds, and I argue that in addition to "budgetary goods," elected officials may also lean on public agencies to improve service quality as an "administrative good" to satisfy voters. By theorizing on both generosity and service quality in the administration of unemployment insurance, I

am able to distinguish between the political and economic conditions making opportunistic control of either budgetary or bureaucratic public goods more advantageous to elected officials.

To test my novel theoretical expectations, I offer novel data source: performance management reports on unemployment insurance claims across the US states. Although the results I find are suggestive, the opportunities for future extension or adaptation of this theory and empirical exploration are many. I conclude the third chapter by discussing the most promising of these future opportunities.

1.4 The Empirical Case of Unemployment Insurance

In the following three chapters, I explore theoretically the political economy of unemployment insurance and I examine empirically the case of the U.S. states. Applying my empirical investigations to the single policy of unemployment insurance offers a number of advantages. First, this form of social insurance is unique in the challenges it poses to actuarially solvent program design. Problems of moral hazard, adverse selection, and non-independence of risk exclude unemployment insurance from efficient public markets, relegating the protection of workers and citizens from the risk of unemployment exclusively to informal or compulsory state institutions. These characteristics simplify the empirical reality by limiting the universe of feasible providers of insurance. In other words, theories of the influence of social, economic, or political factors in coordinating insurance can be more parsimoniously articulated and simply tested empirically, precisely because there is no private market option available. Second, I restrict my investigation to unemployment insurance in the US states, in a most-similar systems research design. This limits the potential for confounding institutional or political variables in my empirical tests. For additional details on the history of unemployment insurance administration in the US, refer to

Appendix 1.

2. BETWEEN A ROCK AND A HARD PLACE: A THEORY OF POLICY DELEGATION BY DECENTRALIZATION

Policy decisions of varying importance are made at every level of government, and each of these decisions carries important political implications, for efficiency or distribution. Because executive or legislative policymakers have limited time and resources to specify rules or execute oversight, they delegate to administrative agents. This delegation choice can have real consequences in democratic systems representing a spectrum of ideological positions, because administrators will use their allotted discretion to move policy output in their preferred direction. Often, lateral delegation is made to an executive agency with the authority to refine details and complete the implementation process. Sometimes, however, policy authority is delegated to lower levels of government; it is *decentralized*. How and why do policymakers choose administrative agents, and why is decentralization sometimes the choice?

Existing theory has little to say on this question of delegation via decentralization, despite this institutional choice having important implications for democratic representation and accountability. An extensive literature on political control is directly concerned with whether or how bureaucracy can be controlled by elected political representatives. These works point to key design features of administrative institutions that facilitate political control or defend against policy change. Policy is a function of institutional design, yet certain institutional design choices have not been theorized on in the extant literature. I argue that national agencies and sub-national governments are substitute administrative agents, and policymakers at the national level may delegate to either institution to effectively implement policy, or to both. Either of these institutional designs will present advantages or disadvantages for po-

litical accountability and policy outcomes. A rational policymaker concerned with implementing their preferred policy will be aware of the multiple trade-offs involved in this decision. The study of delegation and public administration has generated a wealth of knowledge on these questions, but it falls short in conceptualizing this variety of delegation.

Theories of comparative decentralization and federalism also have much to contribute to this explanation. Previous theoretical approaches to delegation have not recognized this growing literature in comparative politics on the study of decentralization. In this chapter, I bring together these distinct literatures to articulate a more integrated explanation. Policymakers everywhere are faced with choosing administrative agents, though the available choices and incentives vary cross-nationally. In turning to the comparative politics literature, I identify important insights about the trade-offs in decentralization gained from the study of delegation decisions in variegated cross-national institutions and contexts.

In making my argument, I focus my empirical discussion on the administration of social insurance policy. Social insurance, including unemployment insurance, is often funded by a tax on employers or employees' wages in developed democracies (U.S. Social Security Administration 2011). This funding structure offers a unique set of incentives to policymakers wishing to satisfy constituents while facing fiscal constraints. Decentralization may be politically efficient, but can pose challenges to principal policymakers desiring future flexibility or political control. Centralized social insurance policy may be economically efficient, but politically unpopular, depending on the degree of regional preference heterogeneity. To explain the decision to delegate authority via decentralization, it is useful to examine this case in which a single government delegated otherwise similar policies to different agents.

An empirical example is useful in illustrating this theory, and an example of

deliberate and selective decentralization is seen in the U.S. Social Security Act. Several social programs were introduced in this 1935 act, including old-age insurance (social security) and unemployment insurance. Both policies are forms of social insurance, and benefit payments under both programs are tied to past employment. Social Security is funded by a payroll tax and insures against permanent departure from the labor force. Unemployment Insurance is a social insurance program that is not altogether different from social security, and yet it was designed to delegate broad authority to state governments. Unemployment Insurance is funded by a tax on employers and is intended to insure workers against involuntary temporary job loss. These two programs were instituted in the same act, within the same political and economic context, and the choice of their institutional design was made by the same coalition of interests, legislators, and executive representatives. Social Security remains a centralized program administered by a national executive agency, first under the direction of the Social Security Board and now under the independent Social Security Administration. Unemployment Insurance, however, is designed to delegate broad authority to state governments, with limited oversight by the national Department of Labor. The choice to decentralize Unemployment Insurance by delegating authority to the states was deliberate and subject to extensive debate in the drafting of the Social Security Act (Witte 1945, Skocpol 1995). In considering the decision by the New Deal Democratic supermajority to decentralize Unemployment Insurance and centralize Social Security, a number of important trade-offs are made evident.

In this chapter, I propose a game theoretic explanation of delegation via decentralization. Drawing from theory in both public administration and comparative politics, I integrate existing expectations into a more unified theory with a single model. The actors in this game include a principal-policy maker (a legislative majority, a government or coalition, or some other national-level decision-maker),

a centralized administrative agency, and two sub-national governments, with each actor having a preferred policy position. The principal's delegation decision (a continuous distribution of discretion between two agents, $0 \geq D \geq 1$) is a function of the difference in two policy proposals, political uncertainty, the oversight costs of decentralization, the efficiency loss from the implementation of heterogeneous policies, and uncertainty of veto player preferences. From this formal expression, I derive a series of theoretical propositions. To summarize, the choice between a centralized and decentralized administrative agent is context dependent; increased political divergence may incentivize either more or less decentralization of policy authority, conditional on other political factors and institutional features.

In the following sections, I review theory of comparative decentralization and theory of bureaucratic delegation and political control. This review highlights the importance of uncertainty about policy outcomes and path-dependency in explaining the choice of administrative agent. In the second section, I unify these multiple theoretical arguments into a single formal expression of the decision to delegate through decentralization. In the last section, I discuss the 1935 U.S. Social Security Act as an illustrative case to provide a substantive example. I conclude this chapter with a number of theoretical propositions that may be adapted to empirical implications, which will be tested in subsequent work.

2.1 Delegation, Political Control, and Path-Dependency

Delegation should be identified in two dimensions, to include the intensity and the direction of delegation. First, it is a straightforward argument that a policymaker can choose *how much* power to distribute to administrative agents. This is not a dichotomous decision, it is a continuum. Very few or very many constraints can be stipulated by the principal policymaker to the agent. Second, control of

policy implementation can be handed to a centralized national agency, or it may be diffused through decentralization. I define "decentralization" as the granting of discretion and authority to sub-national or lower-level governments over a specified policy domain. Sub-national governments as agents are bound to the central government by a formal legislative contract with some degree of specificity, delineating circumscribed discretion over policy implementation and administration. This second step is an important question, because agents offer differing advantages or risks. By conceptualizing decentralization as an instrumental choice in the process of policy implementation, additional explanatory factors become relevant that have not previously been integrated into a theory of delegation.

All policy decisions involve trade-offs. In choosing whether to delegate a task, one such trade-off is the balance of cost and uncertainty. Theory of principal-agent interactions demonstrate this (Niskanen 1971). In choosing whether to decentralize administration, trade-offs between efficiency and flexibility also arise (Tiebout 1956). These considerations are further shaped by preexisting and persistent policy institutions, which alter the costs of future policy reversals or alterations (Pierson 1995; Skocpol 1992). When introducing a new policy, then, decision makers confront each of these (three) trade-offs in choosing how and by whom a policy will be administered. How these considerations are incorporated into a single decision-making process is theoretically unclear, and an explanation requires the integration of these previously distinct theories. The following section discusses each of these three trade-offs.

2.1.1 1: The Exploitation of Agency

Principal policymakers face the fundamental problem of balancing cost and control when delegating decision-making powers, because administrative agents have an informational advantage in their respective policy domains. Bureaucrats in ad-

ministrative agencies cultivate expertise in the policy implementation process, the interests of stakeholders or partners, development of new issues, and technical aspects of their issue area. Having more information and specialization allows these agents to make policy decisions more efficiently and more consistently (Kiewiet and McCubbins 1991). This implies that legislators and executives are rationally ignorant and strategically uninvolved, in other words, they may rationally "abdicate" responsibility (Kiewiet and McCubbins 1991). This delegation can reduce uncertainty and improve the quality of information available (Epstein and O'Halloran 1999*a*). Because bureaucrats have more information about their policy domain and their behavior (effort) is imperfectly observed, they are able to withhold or obscure the true costs of production or their true effort levels. This gives rise to classic principal-agent information problems (Niskanen 1971). Bureaucrats exploit this informational advantage as far as it benefits their utility. This is the problem of bureaucratic drift, whereby discretion allows agents to effect outcomes that diverge from those preferred by principal politicians. This phenomenon, also called "agency drift," implies that an agency pursues its own agenda, thereby running "out of control" (McNollgast 1999). The risk of bureaucratic agents moving policy output away from the principal's preference is substantial, and extensive theoretical and empirical work has been devoted to identifying effective and efficient mechanisms to control bureaucratic output.[1] Bawn (1995) explicitly models this trade-off between expertise or technical competence and control.

Similar information asymmetries arise from decentralization. Where policy authority is more decentralized, administration may benefit from the expertise of local administrators. Sub-national heterogeneity of preferences or implementation con-

[1]For example, see Bawn (1995, 1997); McCubbins, Noll, and Weingast (1987, 1989); Moe (1989, 1990); Rosenbloom (2000); Wood and Waterman (1994).

straints may present a challenge for centralized policy administration, and local actors may have access to better information. However, the influence of local interests, elites, and preferences may compete with the preferences of the enacting principal policymaker. This conflict will increase the transaction costs of ex post control when agents are multiple and decentralized. On the other hand, sub-national governments as decentralized agents can have an informational advantages over a centralized agency because they are better informed of localities' preferences and can more efficiently optimize policy outputs (this expectation calls upon the arguments made by Tiebout 1956). These advantages may vary across policy areas of different degrees of popular salience or technical complexity (Ringquist, Worsham, and Eisner 2003). The additional flexibility in adapting policy outputs to local needs has been considered an advantage of decentralized administrative structures (Lipsky 1980), but will come at the cost of a principal's loss of control.

Any degree of delegation will generate problems inherent in principal-agent relationships. When principal policymakers face a choice in administrative agent, they will evaluate the available options in terms of control costs and likelihood of "agency drift." One factor in this evaluation will be the similarity in policy preferences between an agent and the principal policymaker, though this is theoretically assumed to be an unknown quantity. In other words, principals will consider the *expected bias* in an agent's output. A second factor will be the expertise of an agent, or the ability of an agent to deliver a policy output close to expectation, or the *consistency* of output. Lastly, the cost of oversight will be considered. A consistent agent with very little expected drift is desirable, but only if the cost of oversight is sufficiently low. There is a trade-off to be made between cost of oversight and quality of output, with quality defined by the preferences of the principal. If these are the factors that are considered in this first fundamental trade-off, then how do decentralized agents

compare to centralized agents?

Beginning with a comparison of oversight costs associated with different agents, the monitoring and coordination of multiple agents will be more costly simply because there exists more than one agent. The resources required to collect information on the outputs of a single agent will multiply when more than one agent is involved. Further, the complexity of coordinating with multiple agents will increase if preferences and motivations among these agents are heterogeneous. Agency drift remains a concern when delegation is made to multiple agents, but the direction of drift is unlikely to be in one direction across all agents, and additional resources may be required to identify (and correct) the direction of such drift. The problem of identifying and correcting bias in outputs will be greater. Lastly, decentralized administrative agents may be more responsive to local interests. External local social and political influences shape policy outputs by decentralized administrative agents (Liu et al. 2010; Scholz and Wang 2006; Scholz, Twombly, and Headrick 1991; Soss et al. 2001). This is especially relevant if such influences have a direct electoral connection to the agent, as is the case when delegation is made to lower level or local governments. Where policy is decentralized to lower level governments having electoral legitimacy, ex post policy control by the principal should be even more difficult (costly).

Governments with more vertical distribution of political power, including federal systems, face a greater cost of control and coordination among multiple decentralized agents. Regional governments with protected rights and delineated spheres of policy autonomy will make any re-centralization of authority or change in oversight more costly. In countries with federal structures, the potential cost of control in the case of agency drift should be greater, because once "drift" has occurred, it will be more costly to return output to the principal's preference. To clarify some terminology, I take a liberal definition of "federalism." This concept is prone to definitional flexi-

bility or ambiguity (see Rodden, 2004, for a discussion of operationalized definitions of federalism in comparison to decentralization definitions, or see Elazar, 1994). I choose to take an inclusive view of federalism, the defining characteristics being that (a) citizens elect officials of their choice to each level of government, and (b) each level of government has some authority to collect and spend taxes.[2] Crucially, these characteristics must be formally institutionalized and the interactions between levels of government must represent the rights of each; frequently this is formalized in a constitution.

The trade-off between costly control and uncertain quality is inherent in policy delegation of all types, because bureaucrats and local governments hold an informational advantage over principal policymakers. In choosing an agent, a policymaker must evaluate the relative advantages of different administrative alternatives. Delegation to experts may provide "better" policy, but can limit a policymaker's influence over outcomes. When decentralization is considered as an option, delegation to lower-levels of government poses the political advantage of tailoring policy to local preferences, but principals must consider the risk that policy outcomes may differ from their preferences.

2.1.2 2: Political Efficiency and Economic Efficiency

In addition to information problems, principal policymakers face a trade-off between economic and political efficiency when deciding between a centralized and decentralized administrative agent. Decentralized policy control has the advantage of being flexible to meet the preferences of local polities, but this presents the risk of imposing suboptimal cross-jurisdictional externalities. In the case of social insurance, local policymakers may tend to implement overly austere policy to avoid attracting

[2]This definition is adapted from Peterson (1995).

beneficiaries from other regions, or they may deliver overly generous benefits if not held fiscally accountable. In other words, there is a trade-off between economic efficiency and the efficiency of policy allocation according to local preferences. The relative severity of these problems, however, will depend on several political factors, including the desire for blame avoidance, the degree of cross-regional heterogeneity in policy preferences, and the role of veto players. Most importantly, there must be some degree of heterogeneity in policy preferences across sub-national regions for this threat of "political inefficiency" to exist. If principal policymakers do not fear electoral retribution, they will care little whether policy design represents local policy preferences.

Kaufman (1969) and Tommasi and Weinschelbaum (2007) discuss this concern as a trade-off between the internalization of externalities through centralized policy and the increased accountability of decentralized policy. In the presence of spillovers, or "interstate pathologies," centralization may "enhance democracy" by overcoming coordination problems to provide a more optimal level of policy (Rogers 2012). In the absence of such spillovers, however, decentralization of decision making enables regional governments to "reflect heterogeneous preferences in heterogeneous policy outcomes...[meaning that]...welfare will be maximized in those policy areas relative to the gains that would stem from a single homogeneous national policy" (Rogers 2012, 85). Supporting this expectation, Spina's (2012) study of decentralization in OECD parliamentary governments suggests that position divergence is significantly increases decentralization, although the average party position is not a significant factor. This is an important point worth emphasizing: political ideology is not found to be significant to decentralization, but divergence is important, in Spina's (2012) sample.

Tiebout (1956) argued that decentralization can provide leaner, more efficient, and more effective provision of public goods as sub-national jurisdictions compete for residents. But the assumptions necessary for this outcome rarely (if ever) hold, and decentralization leads to sub-optimal outcomes if competition or coordination problems exist.[3] This point is clarified by Oates' Decentralization Theorem, which states that in the absence of spillover effects and economies of scale, decentralized finance and administration of policy is optimal (Besley and Coate 2003; Oates 1971). Social policies that impose taxes on employers and/or employees violate these assumptions and generate a competitive incentive and a "race to the bottom" in program contributions and generosity. Choices by one set of policymakers with respect to program tax-rates or generosity affect the welfare of neighboring jurisdictions if employers or benefit recipients can easily relocate to a more advantageous policy system. Decentralized welfare policy can thus lead to sub-optimal levels of redistribution as sub-national regions avoid becoming "welfare magnets" (Peterson 1990, 1995). Centralized control can require uniformity of program rules and greater efficiency in the presence of policy spillovers or externalities (Besley and Coate 2003; Brown, Oates, and Brown Charles 1987; Oates 1971).

An alternative perspective found in the comparative politics literature expects decentralization to foster suboptimally *generous* spending as sub-national governments exploit the common pool of resources in the absence of fiscal decentralization. Indeed, in a cross-national sample, Rodden (2003) found that a larger portion of expenditures funded by intergovernmental transfers is associated with larger growth in the size of government. Local governments face an incentive to over-spend when deciding spending (benefit) levels without accountability for collecting the requisite

[3]Triesman (2007) specifically discusses the divergence between the assumptions made by Tiebout (1956) and reality.

revenue. Cross-national empirical investigations into the existence of a "race to the bottom" have not provided a clear answer. There is some empirical evidence in the domain of welfare policy that decentralization may entail spillover effects (Baicker 2005; Brueckner 2000; Dahlberg and Edmark 2008; Wheaton 2000), yet other evidence fails to support the welfare competition expectation (Fiva and Rattsø 2006; Shroder 1995). These arguments, however, apply to fiscal decentralization, which is not strictly necessary for the delegation of administrative authority. When administrative and fiscal authority are both decentralized, there is greater incentive for fiscal accountability but little incentive to internalize externalities. Principal policymakers may be aware of this, and can incorporate this trade-off into their decision making. Whether decentralization of policy authority leads to inefficient policy, being either too austere or too generous, will depend on the political context.

As noted above, principal policymakers electorally accountable to sub-national regions will be more concerned about meeting local preferences and expectations for policy. If constituencies have heterogeneous preferences, decentralization to regional governments can have political benefits for the principal policymaker. Any uniform policy applied to all constituencies will be allocatively inefficient when constituent preferences are geographically sorted and heterogeneous. Some constituencies will receive "more" policy than they prefer and some will receive "less." Regional-level decision making to tailor policy to local constituency preferences could achieve a pareto improving policy allocation relative to centralized policy. Therefore, decentralization can resolve "political inefficiencies," in the absence of policy externalities. This reiterates the trade-off described by Rogers (2012), that local policy responsiveness is at odds with efficiency. Greater preference divergence across sub-national regions may thus incentivize decentralization.

Policy administrators offer different informational advantages and ease of control,

which are taken into account by principal policymakers in choosing an agent. The second trade-off considered by policymakers is the balance of policy specificity and containment of externalities. Decentralized administration invites local governments to pass policies that fail to account for fiscal constraints or for externalities, but it offers the advantage of providing regions with their more preferred policy. Where there is greater preference heterogeneity, the advantage of decentralizing will increase. Principal policymakers will carefully weigh these considerations in deciding whether to delegate via decentralization.

2.1.3 3: Political Uncertainty and Path-Dependence

The third trade-off in delegation concerns political uncertainty and path dependence. On the one hand, a principal policymaker may wish to defensively design administrative institutions to protect their preferences from future change. On the other hand, when deciding delegation, principals are constrained by the institutions already in place.

If principals are uncertain of the policy outcomes they will prefer in the future or if the durability of the government is uncertain, control over future policy can be effected through ex ante design of structure and procedures (McCubbins, Noll, and Weingast 1987, 1989; Moe 1990). Elected political officials (the executive and legislature) seek to "enhance the durability of the bargain struck" in policy-making at a given point in time through institutional design (McCubbins, Noll, and Weingast 1987). Agency structures and procedures serve purposes that are politically advantageous to the elected officials by biasing policies in the future to (1) favor certain constituencies ("deck-stacking"), (2) mirror the political coalitions at the time of drafting, (3) avoid undesirable rulings, or more generally (4) to allow principals preferences to be included in the process. By directly addressing issues of political

uncertainty, McCubbins, Noll, and Weingast (1989) argue that *ex ante* control over agency structure and procedure can be more effective than *ex post* control by oversight and monitoring. For example, when an executive is of a different political party or ideology than a legislative majority, this uncertainty could be great. Even in the case that a principal expects to remain in power in the future, a legislative or executive actor with a different policy preference may influence outcomes produced by the centralized agency. This uncertainty will also be greater where the policymaker anticipates a declining level of political power in the future (i.e. where an electoral loss is anticipated). Finally, there is a role for veto players in this decision. A greater number of veto players is expected to increase the stability of policy by increasing the difficulty of changing the status quo (Tsebelis 1999, 2002). Veto players include an independent judiciary, coalition governments, bicameral political systems, presidents with veto, or a strong legislative review process. Greater uncertainty about the preferences of a veto player with respect to the institutional choice can influence delegation choices.

The implication of this argument is that administrative structure will be designed to reflect the interests of the principal political actors. In other words, the choice of administrative body will be rational and deliberate. Delegating to lower levels of government can reinforce attempts to influence policy outputs through ex ante design. If policy interests vary and are geographically sorted, the decentralization of policy authority reinforces the influence of these interests *where they are already influential*. Electoral incentives in decentralization are relevant to this discussion, and O'Neill has offered the most extensive discussion of these incentives to date. With evidence from Latin America, O'Neill (2005) argues that national politicians will only support decentralization if doing so generates sufficient political gain to the political party (or coalition). This may be the case if a political party is stronger in

some areas of the country than others, or if the national policymakers anticipate that they will have greater influence in these sub-national contexts than at the national level in the future. This argument relates primarily to *political* decentralization, but the rationale can extend to administrative decentralization.

In the choice to delegate to sub-national agents there is also a blame avoidance incentive. Delegating policy authority to agents may diffuse the blame otherwise directed at the principal policymakers (Escobar-Lemmon 2006; Fiorina 1982; Peterson 1995; Rodden 2004). Blame avoidance may be easier when administration and implementation are delegated not only to other agencies, but to other *governments*. Political responsibility should be more closely associated with national politicians if policy is centralized, and thereby more clearly visible (Powell and Whitten 1993). If state governments are chosen as agents, blame for local policy outputs should be rather more focused on the local sovereign governments. In this way, the choice of agent may have implications for the insulation of the principal from future political blame. Uncertainty about policy outcomes or the political costs of those outcomes will affect the advantage of avoiding blame. If a policy is risky or otherwise uncertain, the principal may have greater incentive to avoid blame. The "political cost" of a centralized policy will increase as the degree of policy inefficiency increases and will be less where a blame avoidance incentive exists. This political cost (or benefit) will factor into the valuation of delegation to either agent.

If a policymaker expects that they can more effectively achieve a desired outcome by delegating authority to agents with more similar, more certain, or less volatile preferences, it may rational to do so. This is the third component of my theory, that a policymaker will be aware of the uncertainty of their future influence or preference representation across different agent choices, and they will incorporate this information into their decision making. The structuring of policy administration through a

single centralized agency or decentralized through lower-level governments will differently impact the ability of a principal at the national-level to effect control over policy in the future. To bring these multiple theories into a single explanation of delegation, in the next section I express these arguments more formally.

2.2 A Model of Policy Delegation

I now represent these multiple tradeoffs in a formal game. A formal expression of this theory is useful, because it allows for integration of multiple arguments into a single explanation of policy delegation. Beginning with a classic principal-agent model, I assume that a principal policymaker must select an administrative agents to implement a policy. This principal may be a legislative majority, a governing coalition, an executive, or, more generally, a government in power. This principal will delegate policy responsibility between two agents, a centralized agency and sub-national governments.[4] These alternative agents are substitutes, either is capable of implementing the policy. This decision by the principal is a function of five factors: the resource costs of controlling a decentralized set of agents, the political costs of inefficient policy allocation, divergence between policy proposals, the threat of veto player block or overturn, and the likelihood that the agency will share the preference of the principal.

Viewing delegation as a consumption choice, the proportion of authority delegated to the sub-national governments is noted D in this game. I assume there are two policy proposals, w_P and $w_{\sim P}$, and the principal prefers w_P. The convergence of political preferences is measured as the absolute value of the difference between policy

[4]The delegation of *fiscal* authority is exogenous to this game. I assume that administrative authority may be delegated with or without fiscal authority over the same policy, and that this decision is made separately. The coincidence of fiscal and administrative decentralization will affect the magnitude of some parameters in this game. Also exogenous to this model is the choice of how much discretion to grant in total. The classic "make-or-buy" decision is presumed by this game, and the principal in this game is simply selecting an agent.

proposals, $\alpha = |w_P - w_{\sim P}|$. The alpha term, α, represents relative convergence, with $1 - \alpha$ representing divergence. Thus, the α term represents *policy convergence*, with complete convergence when equal to one.[5] For simplicity, these two proposals are noted w and αw, with $0 \leq w \leq 1$. Larger values of α indicate more similar proposals and smaller values of α represent more divergent proposals. These two policy proposals can be positioned along a unidimensional spectrum. This can be thought of in the context of social policy as benefit generosity or coverage, or may be generalized as positions along an ideological scale. These two policy options are two competing proposals for the same policy program.

To implement this policy, the principal policymaker must select an administrative agent. This model assumes that the principal delegates administrative authority to two agents: a single national agency or sub-national governments. The proportion of total authority delegated to sub-national governments is noted D, and the proportion of authority delegated to the national government is equal to $1 - D$, with $0 \geq D \geq 1$. This means that the principal may delegate all policy authority solely to one agent or the other, or may distribute authority between them.

I further assume that the principal is uncertain about the preferences of the national agency under consideration, which may be either convergent (C) or divergent ($\sim C$). If the national agency is convergent, it prefers the same policy as the principal, either w when the principal prefers w, or αw when the principal prefers αw. If the central agency is divergent, it most prefers the policy that is least preferred by the principal. If convergent, the agency's payoff will equal the policy implemented, either w or αw. If divergent, the agency will receive a payoff equal to αw if it implements w, and it will receive w if it implements αw. The nature of the agency is unknown to the principal, but the probability ($0 \leq p \leq 1$) of the agency having con-

[5] Let $w_P = 1$ and $0 \leq w_{\sim P} \leq 2$, such that $\alpha w_{\sim P} = w_P$

vergent preferences is known. This uncertainty comes from information asymmetries inherent in principal-agent relationships, as well as political uncertainty about other influences on the agency, including an executive influence or a change in principal preferences in the future.

The alternative institutional choice is to delegate policy discretion to sub-national governments. When a principal policymaker represents regional constituencies, it is a plausible assumption that it will know the preferences of sub-national regions. I assume there exist two levels of government, and there exist two jurisdictions of different type at the lower level. Region one prefers the high policy (w), ceteris paribus, and region two prefers the lower policy αw. Because there is a risk of spillover effects associated with heterogeneous policy implementations across sub-national regions, each region experiences a disutility (efficiency loss), $0 < \pi < \alpha$ if different policies are implemented.

The principal is aware of these preferences and I assume that this policymaker will be held electorally accountable for implementing a policy that is less-preferred by one of the regions. This is a democratic phenomenon I refer to as the *cost of inefficient policy allocation*. If policy is centralized and administered by a single agency, all regions will be subjected to the same policy implementation. If regional preferences are heterogeneous and a single uniform policy is applied to all states, "political inefficiency" will exist. Lowry (1992) discuses this "promise" of federal (and decentralized) systems that allow sub-national variation in policy to provide efficiency, innovation, and, crucially, flexibility by allowing "policymakers who are close to the scene to tailor policy efforts to local policy needs." Any uniform policy implementation (w or αw) will deliver to one of the two states their less preferred level of policy.

Recall that the choice of policy to be implemented by the central agency is un-

certain. I assume that a region receiving their less preferred policy will hold their representative principal accountable in the next election. This (expected) political cost is noted as c_p in the model, with $0 \leq c_c \leq w$, and it represents the electoral cost or loss of support suffered by the principal policymaker for implementing a policy that is less preferred by a region. This cost is only realized if policy authority is delegated to the central agency, when $D < 1$. If authority is distributed between the agency and sub-national governments (i.e., $\delta \neq 0$), this cost diminishes in the proportion of authority given to the lower governments. In the case that policy authority is distributed between both agents, the "clarity of responsibility" should diminish as voters become less able to accurately attribute blame associated with any national policy (Powell and Whitten 1993), and political or electoral penalties are therefore discounted. The principal will pay a cost of $\frac{1}{2}c_p$ if the first policy proposal, w, is implemented in Region 2, or if the second proposal, αw is implemented in Region 1.

If, however, the principal decides to delegate (some) administrative authority to sub-national governments, this policymaker will realize a cost associated with the effort required to control the decentralized set of agents. Horn (1995) discusses what he terms "agency costs," which are the "costs incurred to induce administrators to implement faithfully what was intended in the legislation and the losses legislators and constituents sustain by being unable to do so perfectly" (19). These costs are noted as c_c in the model, with $0 \leq c_c \leq w$, and are defined as an additive function of multiple factors. I assume that delegation to either agent alternative will incur some control costs, but I further assume that the net sum of these costs will be greater for the decentralized agent and this term is therefore defined in the model as the additional control costs associated with delegating to the states in comparison to a single central agent. This cost is a function of the increased resource requirements of monitoring multiple agents and the additional transaction costs associated with

adjusting or otherwise controlling policy outputs ex post across multiple agents relative to a single central agency. As with the policy inefficiency costs, this cost of control declines in the portion of discretion granted to the central agency.

The transaction costs of altering policy outputs among a set of decentralized agents will be increased if the agents are governments with electoral legitimacy, rather than bureaucratic agents. If the "agents" derive direct democratic legitimacy through electoral accountability, these costs of control will be greater because the principal policymaker, at the national-level, could be countered by local-level elected officials holding different preferences.This implies that federal systems, in which lower-level governments may have better protected spheres of authority, will pose greater transaction costs on future policy change imposed by the principal policymaker at the national level. If the sub-national governments are of heterogeneous administrative capacity, this cost may be increased because the principal must expend additional resources on oversight. The principal must monitor both the policy outputs and the quality of any information reported to the principal. If administrative capacity and expertise is expected to be higher for one agent over the other, the relative control cost will be represented within the c_c term.

However, this cost of control will be less if the characteristics of the policy provide a comparative advantage to the regional governments in collecting and interpreting information relevant to the policy implementation process. If regions have a comparative advantage over a centralized agency in reducing the uncertainty associated with policy outputs, then this cost of control may be reduced. Lastly, this cost of control may be further reduced if the principal perceives a benefit from the increased cost of controlling the set of agents. The principal policymaker may be uncertain about its duration of power, its own future preferences, or the range of probable policy outcomes from a national agency. If there is more uncertainty about these

factors than the policy preferences or outcomes of a decentralized set of agents, the expected "costs" associated with the increased difficulties of controlling policy outcomes across the states may be lessened. Uncertainty of future political alignments or interests incentivizes limits on future principal actors' influence on agents (Huber and Shipan 2000). This reflects the potential benefit of insulating policy from future legislative influences. Both the cost of control, c_c, and cost of policy inefficiency, c_p, will have diminishing marginal effects.

The last factor in the decision function accounts for the influence of institutional veto players. I assume that the principal is uncertain of such policy reversal or overturn. The principal knows there is a threat that a veto player will block either a centralized or decentralized policy but knows only the probability of either event. Thus, the principal's payoff from a uniform centralized policy is discounted by β, the probability that a veto player will block or overturn a nationalized policy. Their payoff from a decentralized policy is similarly discounted by γ, the probability that a veto player will block this institutional choice. The probability of either block, β or γ, will increase as the number of institutional veto points increases. A veto player could be a second legislative chamber, an independent judiciary, an executive with veto authority, a coalition member, or legislative review (Jensen, Proksch, and Slapin 2013; Martin and Vanberg 2004, 2005; Tsebelis 1999). The probability of no veto is noted $\phi = 1 - \beta - \gamma$, with $0 \leq \beta + \gamma \leq 1$. If a veto player blocks a policy proposal, I assume that the principal receives a payoff equal to zero, and that no policy will be implemented by either an agency or the regions. This assumption is based on the expectation that sub-national governments will be unable to overcome the collective action problems inherent in regional competition in the absence of a national mandate. This is a reasonable assumption to make in the context of policies

that entail competitive incentives in the absence of a national mandate.[6]

2.2.1 Sequence of the Game

Having defined terms and discussed their meaning, I now move to a discussion of the sequence of this game. In the first stage of the game, nature chooses the central (national) agency type as either convergent or divergent, and this state of the world is unknown to all players in the game except the agency itself. The principal policymaker then chooses the proportion of authority it will delegate to the sub-national governments, this is the decided level of delegation through decentralization, noted as D. The relative discretion delegated to the sub-national regions (indexed by $R1$ and $R2$) is noted D. This choice is made under the condition of uncertainty about agency type, the principal knows only the probability that the central agency is convergent in its preferences. Third, the agent sets a policy level, either the principal's preferred policy w or the alternative policy αw. The sub-national governments move last, choosing their policies respectively.

In this game, I define the payoffs realized by each actor as a utility function. Each actor receives some utility from policy implementation, and their payoffs will depend on the policy choices of policy agents and the proportion of authority delegated to either agent. Turning now to the principal policymaker's utility function (noted U_P), if a uniform policy is implemented by a centralized agency equal to the "higher" policy proposal (w), the principal receives a payoff equal to the higher policy proposal w minus the costs of policy inefficiency, c_p. If a homogeneous low policy is implemented in all states, the principal receives a payoff equal to the lower policy proposal (αw) minus the cost of inefficient policy allocation, c_p. If the sub-national governments

[6]In this model, the role of veto players does not affect the optimal level of decentralization, but will affect the expected utility of the entire policy, thus affecting the decision to pass the policy or not. This decision is implicit in this model.

each pursue their equilibrium strategies such that the policies enacted across the states are heterogeneous, the principal will receive a payoff equal to the average policy level minus the costs of control, c_c. The contribution of these two sets of factors are weighted by D, the distribution of authority between agents. The threat of a veto player blocking centralization (β) or blocking decentralization (γ) will further discounting these payoff to the principal. Therefore, the principal will choose a level of decentralization, D, to maximize its expected utility.

When the central agency is convergent (of type C), the principal's utility from complete delegation to the agency is equal to: $U_L(D|C) = \gamma(w - (1-D)c_p)$. When the central agency is convergent (of type $\sim C$), the principal's utility from complete delegation to the agency is equal to: $U_L(D| \sim C) = \gamma(\alpha w - (1-D)c_p)$. With the assumption of uncertainty about the agency's type, the expected utility to the principal from complete centralization will be weighted by the probability that the agent is convergent, noted p in this model. Thus, with uncertainty of agent type, the principal's payoff from complete delegation to a central agency is equal to:

$$\begin{aligned} U_P(D) &= p \cdot U_P(D|C) + (1-p) \cdot U_P(D| \sim C) \\ &= p \cdot \gamma(w - (1-D)c_p) + (1-p) \cdot \gamma(\alpha w - (1-D)c_p) \\ &= \gamma \left[w(p + (1-p) \cdot \alpha) + (1-D) \cdot c_p \right] \end{aligned} \tag{2.1}$$

However, the principal may choose to delegate authority to the sub-national governments. If delegation is made solely to lower-level governments, meaning complete decentralization, the principal's payoff will be equal to the weighted average of the

implemented policy, minus the cost of decentralized control:

$$\begin{aligned} U_P(D) &= \beta \cdot \frac{1}{n_s} \sum_{i=1}^{n_s} w_i - D \cdot c_c \\ \text{where } w_i &\in \{w, \alpha w\}, \text{ and } n_r = 2 \\ &= \beta \cdot \left[\frac{w(1-\alpha)}{2} - D \cdot c_c \right] \end{aligned} \tag{2.2}$$

When delegation is distributed between the central agency and lower-level governments (i.e. when $0 < \delta < 1$), the principal's payoff will be equal to the average of the utility from the policies implemented by either agent weighted by the proportion of authority granted to each. This is shown below in Equation 2.3.

$$U_P(D) = \gamma \cdot (1-D) \cdot [p \cdot (U_P \cdot |C) + (1-p) \cdot (U_P(\cdot| \sim C))] + \beta \cdot D \cdot (U_P(d_S)) \tag{2.3}$$

and with substitution this equals

$$\begin{aligned} U_P(D) =& \gamma \cdot [(1-D) \cdot (w(p + (1-p) \cdot \alpha) - (1-D) \cdot c_p)] \\ &+ \beta \cdot [D \cdot (\frac{w}{2}(1+\alpha) - D \cdot c_c)] \\ &+ (1-\beta-\gamma) \cdot [D \cdot (\frac{w}{2}(1+\alpha) - D \cdot c_c) \\ &+ (1-D) \cdot (w(p + (1-p) \cdot \alpha) - (1-D) \cdot c_p)] \end{aligned} \tag{2.4}$$

The payoffs realized by other actors in this game are far simpler than those of the principal policymaker. Each central agency type has a pure preference, conditional on type the high policy if convergent and the low policy if divergent, if the principal prefers the high policy. As a player in this game, the central agency has a pure equilibrium strategy: $\{w \mid C, \alpha w \mid D\}$.[7] The strategy set for each region $i \in \{1, 2\}$ is

[7]The central agency's complete strategy set is $\{(w \mid C, w \mid\sim C)(w \mid C, \alpha w \mid\sim C)(\alpha w \mid C, w \mid\sim$

$\{w, \alpha w\}$. Region 1 prefers the high policy and thus prefers any outcome in which it receives the high policy to any outcome in which it receives the low policy. Region 2, preferring the low policy, will prefer any outcome in which it receives the low policy to any outcome in which it receives the high policy. Given their own strategy, both regions prefer to implement the same policy to minimize spillover effects. Region 1 and Region 2 have pure equilibrium strategies in this basic model of the game, and will always choose $\{w\}$ and $\{\alpha w\}$, respectively. If different policies are implemented among the agents, the payoff is reduced by π, where $0 < \pi < \alpha$.

2.2.2 Decentralization in Equilibrium

Bringing all of these assumptions together, Figure 2.1 represents each of the five steps in the game, with the payoffs to each actor shown. Solved using backwards induction, the game has one equilibria with uncertainty of agency type and uncertainty of veto player preferences. In equilibrium, Region 1 will always choose to implement w, and Region 2 will always choose to implement αw. The central agency will choose w if convergent and αw if divergent. The principal policymaker's equilibrium strategy will be to maximize it's utility as a function of decentralization, D, given the other actors' strategies. The equilibrium level of decentralization chosen by the principal policymaker (noted D^*) is shown in Equation 2.5.

$$D^* = \frac{\frac{w}{2} \cdot (1+\alpha)(1-\gamma) - w(p+(1-p)\alpha)(1-\beta) + 2 \cdot c_c(2-\gamma-\beta)}{2 \cdot (c_p(2-\gamma-\beta) + 2 \cdot c_c(1-\gamma-\frac{\beta}{2}))} \tag{2.5}$$

$C)(\alpha w \mid C, \alpha w \mid\sim C)\}$.

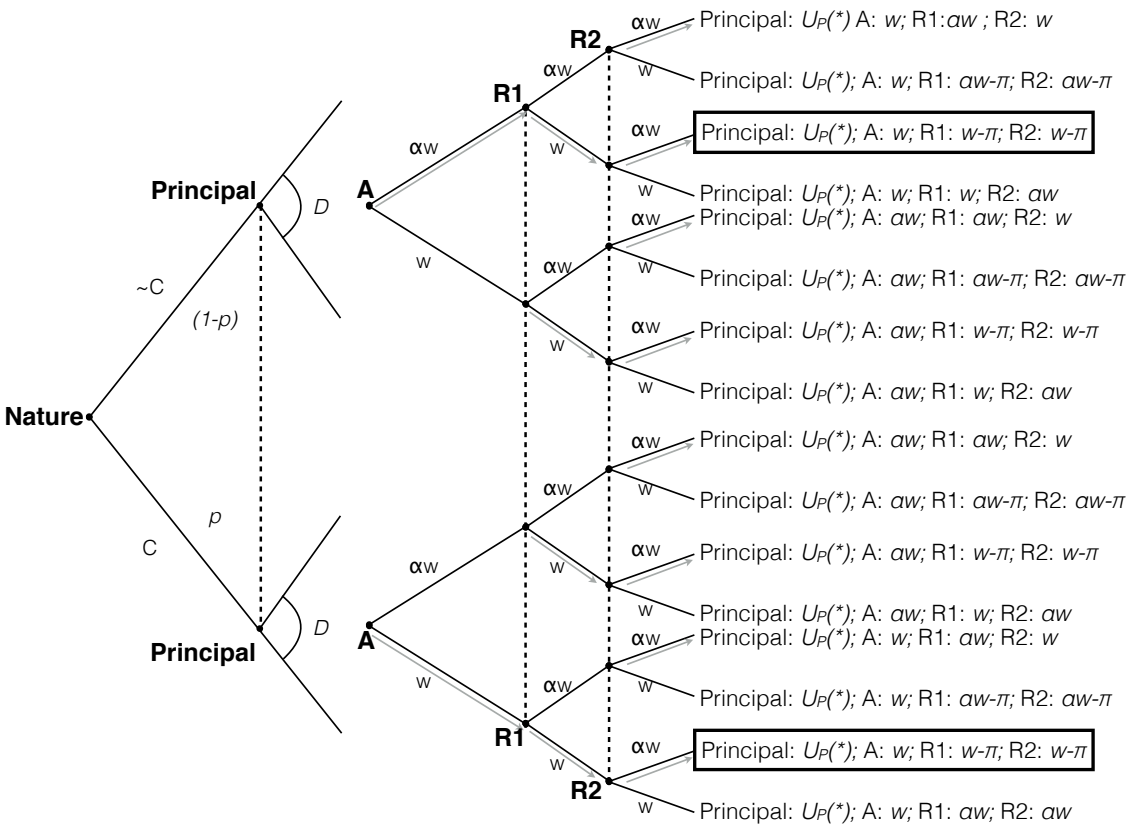


Figure 2.1: Extensive Form Model of Delegation and Decentralization

2.2.3 Trade-offs in Equilibrium

This equilibrium strategy represents the three trade-offs discussed above, which I argue determine the decision to delegate through decentralization. The first trade-off between cost and control is represented by the cost of policy control, noted c_c. The second trade-off between policy accountability and economic efficiency is accounted for by the cost of inefficient policy allocation, noted c_p in the model. Lastly, the trade-off between flexibility and uncertain control driven by political uncertainty and path-dependence is represented by the probability of a central agency with divergent preferences, noted p in the model, as well as the probability of veto player interference, γ and β in the model. Each of these trade-offs are incorporated in this single model of the institutional choice of a policy delegate. The following sections explore in greater depth how these different considerations influence the principal policymaker's decision.

2.2.4 Policy Convergence and Empirical Implications

Critical to this model is the assumption that more than one policy proposal, or preference, exists. If all actors share the same policy preferences, the relative advantage of different administrative agents will be irrelevant– all agents would implement very similar policies. *The importance of this choice of agent is increased by preference divergence between the political and administrative actors in the game.* To examine the effect of political convergence on the decision by principal policymakers to decentralize, I derive from the principal's equilibrium strategy (Equation 2.5 above) the marginal effect (partial derivative) of policy convergence (α) on decentralization in equilibrium (D^*). Equation 2.6 shows this effect.

$$\frac{\partial D^*}{\partial \alpha} = \frac{\frac{w}{2} \cdot (1-\gamma) - w(1-p)(1-\beta)}{2 \cdot (c_p(2-\gamma-\beta) + 2 \cdot c_c(1-\gamma-\frac{\delta}{2}))} \tag{2.6}$$

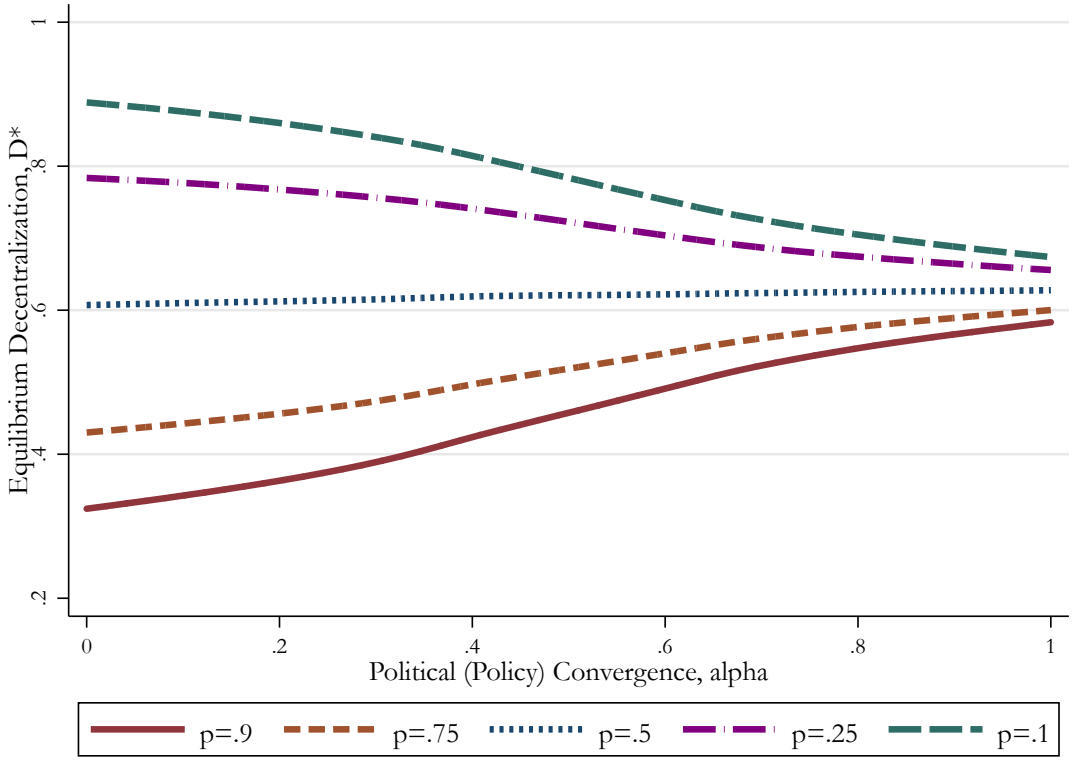


Figure 2.2: Predicted Decentralization in Equilibrium and Political Convergence

Because it is difficult to elicit clear theoretical propositions from the statement in Equation 2.6, I turn to a graphical representation of the predictions made by this model. In Figure 2.2, I graphically represent the predicted level of decentralization chosen by the principal policymaker in equilibrium in multiple scenarios. The horizontal axis represents the theoretical range of policy convergence ($0 \leq \alpha \leq 1$), with

increasing convergence represented by movement right along the axis. Each line in this figure represents a different level of uncertainty about the centralized agency's type, from very low ($p = .1$) to very high ($p = .9$). This figure makes clear an important theoretical propositions from this model. Increasing convergence in policy positions may result in a higher or lower optimal level of decentralization (D^*). The level of uncertainty about the central agency's type will determine whether increasing convergence incentivizes greater (de)centralization. When the probability of an agreeable agency is very high (at $p = .1$, the topmost line in the figure), an increase in policy convergence motivates *less* decentralization. This demonstrates that the risk of a divergent centralized agency reduces the relative advantage of decentralizing delegation. This illustrates my argument that policymakers will *trade-off* the relative advantages offered by different administrative agents in deciding delegation and decentralization.

Although numerous propositions may be derived from this model (see the appendix and subsequent chapters for further discussion), I focus here on the proposition that *increased policy convergence may incentivize either more or less decentralization of policy authority conditional on other political factors.* Figures 2.3 and 2.5 examine this theoretical proposition more closely by representing the predicted partial effect of political convergence on decentralization in equilibrium at varying levels of uncertainty about the central agency's type or veto player preferences. The shaded areas of these figures indicate the area in which the partial derivative of equilibrium decentralization with respect to policy convergence is greater than zero, this can be understood as a positive predicted marginal effect of policy convergence. A predicted marginal effect of *greater than zero* represents the model's prediction that greater policy convergence will *increase* decentralization. Similarly, a predicted marginal effect of *less than zero* represents the model's prediction that greater policy

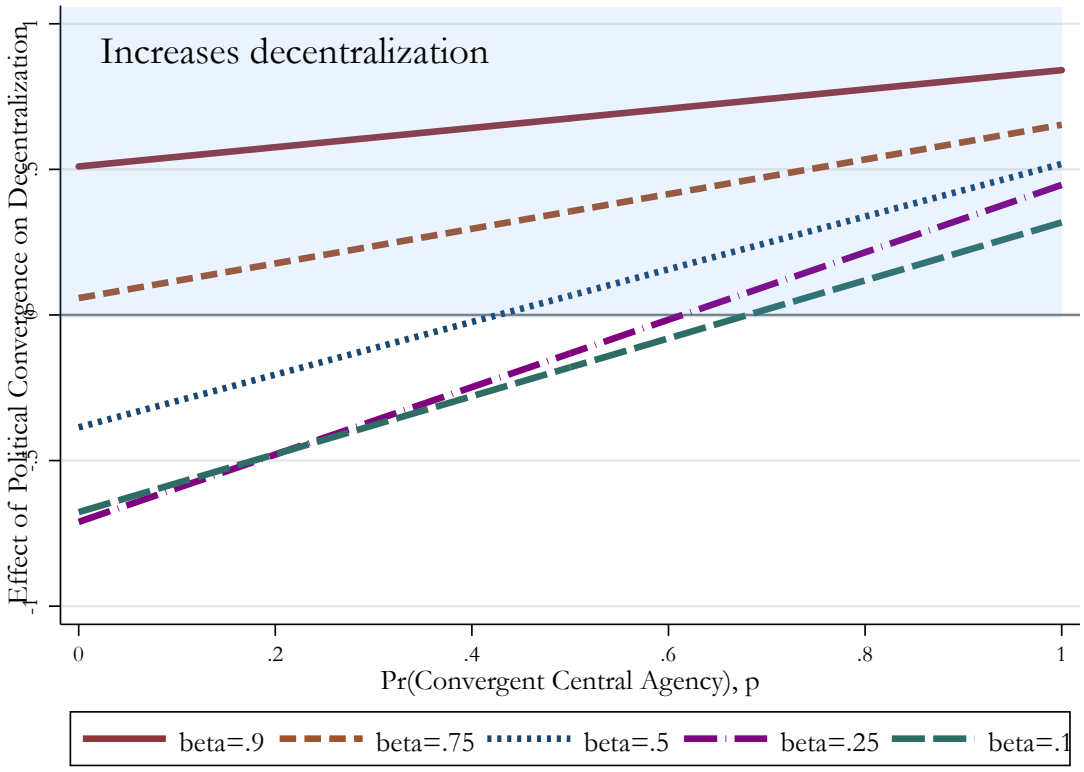


Figure 2.3: Predicted Effect of Political Convergence in Equilibrium and Agency Type

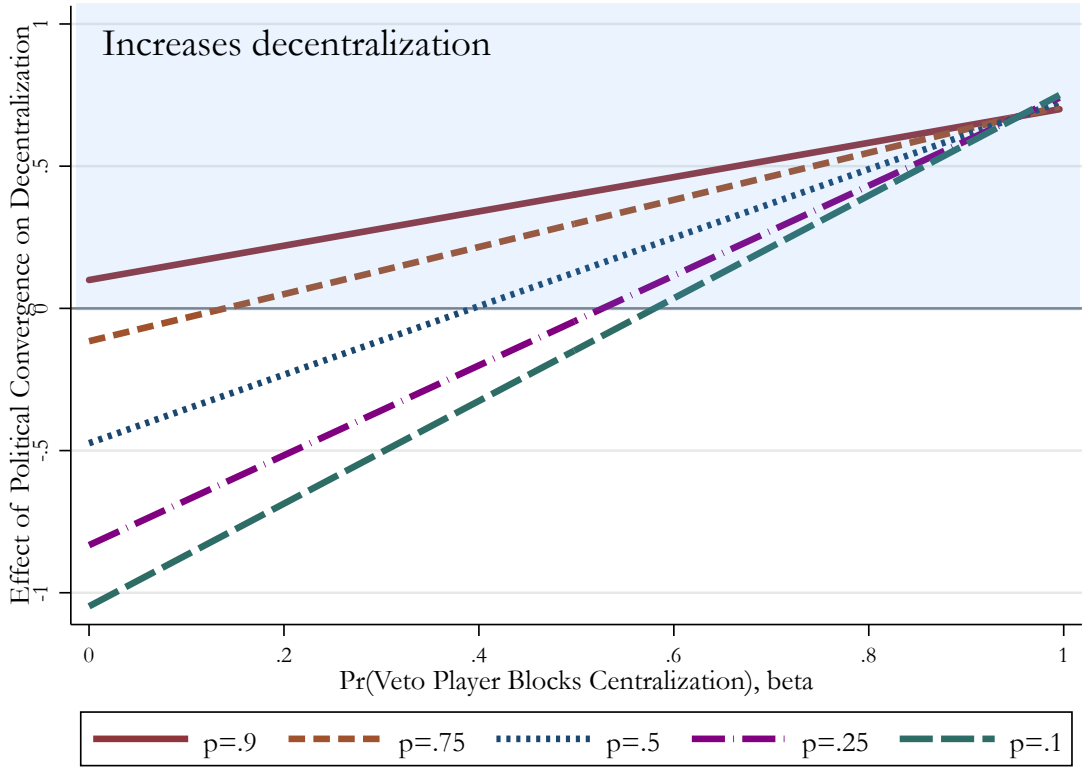


Figure 2.4: Predicted Effect of Political Convergence in Equilibrium and Veto Players

convergence will *decrease* decentralization (i.e. foster centralization).

This examination of the implications from this model offers at least one clear proposition that can be easily adapted to empirical testing. In more substantive terms, greater convergence (less polarization) between political actors will motivate *increased decentralization* where there is a greater probability of a veto player opposing the policy. Where a veto player is less likely to oppose decentralization, greater convergence will motivate *decreased decentralization* if a centralized administrative agent is less likely to represent the decision-maker's preference.

2.3 Return to the Empirical Puzzle

Returning to the empirical puzzle motivating this theory, I now consider how well these theoretical prediction(s) fit an observed case. In the following sections, I introduce the specific case of the U.S. Social Security Act. *This does not constitute a test* of this theory, because it was instrumental in theory building, but it is useful in substantively illuminating key arguments of the model.

American state and local governments have increasingly absorbed fiscal and policy responsibility over past decades, particularly in the areas of education, health, and social welfare (Baicker, Clemens, and Singhal 2012). Historically, the U.S. Congress has delegated substantial authority to the states more in some policy areas than others. Education policy, community development, and some social welfare programs involve considerable decentralization of discretion, yet not all programs are decentralized to the same degree. Social welfare policies including SNAP, TANF, and Medicaid are largely decentralized, while administration of Social Security and Medicare rests with a centralized agency. There are certain policy areas for which decentralization of authority is expected or required by the Constitution, but these rules can be ambiguous, subject to interpretation, and also subject to change. In

regard to social welfare policy, the Constitution is ambiguous in allocating responsibility to either the states or the national level. Article 1 Section 8 of the Constitution states simply that the Congress has taxation power to "provide for the...general Welfare" of the country. This allows federal, state, and local governments to share responsibility in these policy areas. Given this ambiguity in the assignment of policy authority, policymakers in Congress and the executive can decide delegation and decentralization.

Deliberate and selective decentralization is evident in the U.S. Social Security Act. Old-age insurance (Social Security) and Unemployment Insurance were both introduced in this 1935 act, both with similar funding structures with eligibility tied to past employment. The administration of Social Security is centralized, first under the direction of the Social Security Board and now under the independent Social Security Administration. The administration of Unemployment Insurance, however, is designed to delegate broad authority to state governments– it is more *decentralized*. These two programs were instituted in the same piece of legislation in 1935, under the same political and economic circumstances, and the choice of their administration was made by the same coalition of interests, legislators, and executive representatives.

When the Social Security Act was drafted, disagreement prevailed over the design and generosity of social insurance programs, both between political parties and within. At the time, the Democratic party held a supermajority in the national legislature, severely reducing the ability of the opposition Republican party to influence the legislative process. The industrialized and unionized northern Democratic states explicitly preferred a more inclusive or generous set of social policies than the more agricultural southern Democratic states. With respect to unemployment insurance, a "Wisconsin plan" was favored by a brain-trust of labor economists at the Univer-

sity of Wisconsin as well as by President Roosevelt, the Secretary of Labor Frances Perkins, and other party leaders in the Democratic party (Blaustein 1993; Rubin 1983; Witte 1945). The alternative Ohio plan was less tied to actuarial principles, and had only minority support within the Democratic coalition (Skocpol 1995). Note that the opposing Republicans were generally against any sort of mandated tax or contribution for unemployment insurance.[8] These preferences are evident in voting records (Social Security Administration 2012) as well as historical accounts of Congressional debates and legislative procedures (Derthick 1979; Skocpol 1995). The Congressional majority, as the principal policymaker, was in favor of some level of policy greater than the status quo, but there existed two competing policy proposals.

The failure of U.S. states to implement more extensive social welfare programs prior to passage of the Social Security Act was due to cross-state competitive pressures and the associated influence held by business interests (Hacker and Pierson 2002). The Committee on Economic Security charged with drafting the original text of the Social Security Act in the early 1930s explicitly recognized that competitive pressures existed in the provision of unemployment insurance by state governments, and specifically that un-mandated unemployment insurance would be difficult or impossible (Witte 1945), or would be inefficient (Douglas 1931). A similar sentiment was written about old-age insurance (Rubinow 1916). Therefore, in order to ensure a preferred level of insurance provision, the delegating policymaker (Congress, in this case) mandated provision. At the time, in the absence of a nationally mandated policy, the states were unlikely to independently or unilaterally implement similarly comprehensive social policies.

At the time of drafting, labor interests were stronger in the northern states than in the south. Southern states were also subject to stronger interests in excluding

[8]For specific arguments, see Derthick (1979) or Sargent (1933).

non-white racial groups from social policies (Lieberman 1998; Skocpol 1995; Witte 1962). By decentralizing policy and administrative authority in this case, northern states were able to institutionalize the influence of labor representatives in their state-level policies (Blaustein 1993) and southern states could implement their preference for exclusionary policy design (Lieberman 1998). The institutionalization of these state-level policies was effective, with long-lasting implications for policy outcomes (Lieberman 1998; O'Leary and Wandner 1997; Soss, Fording, and Schram 2008). It is unlikely that these interests could have shaped national policy as effectively as they did at the state-level. Decentralizing administrative authority thus allowed northern Democrats to retain the electoral support of the northern states and labor representatives while southern Democrats retained the electoral support of the southern states. This example illustrates how different interests or favored constituencies may be differently enfranchised or represented in policy making by delegating policy administration to lower levels of government.

Lastly, policymakers at the time were aware of the Supreme Court as a veto player, potentially capable of reversing any delegation decision. This threat was explicitly recognized in the drafting of the Social Security Act. For example, Atkinson (1941) writes that "At the time it was established, [the federal-state system] seemed the only plan that would be upheld by the Supreme Court" (181). This sentiment is echoed by Whitte (1945, 1962). At the time of passage, there was no Constitutionally upheld precedent for a nationalized unemployment insurance program that pooled risk across industries or states.[9] In fact, the Railroad Retirement Act's unemployment insurance provisions were struck down in 1935 for exceeding Congress'

[9]Indeed, several cases have been brought to the Supreme Court concerning various aspects of unemployment insurance the the legitimate role of the federal government in setting standards and rules, see Rubin (1983) for a review, though perhaps out of date.

power to regulate commerce.[10] While there was doubt about the constitutionality of centralized unemployment insurance, there was more certainty about Social Security. A form of nationalized social security had been in existence since the Civil War in the form of veterans' pensions. The precedent for national management of a pension program for veterans, their dependents, and some federal employees, combined with the design of social security to be based on *individual contributions* made a Supreme Court veto of the old age insurance component an insignificant threat to the policymakers.

This case illustrates the three trade-offs that I argue are key to delegation. First, there is the trade-off between cost of control and ensuring that principals' policy preferences are reflected. Being such similar policies, the anticipated costs of controlling agents in administration might have been similar for both Social Security and Unemployment Insurance. However, because Unemployment Insurance may take a more prominent role in affecting the behavior of labor markets through it's influence on employers, who would pay the supporting taxes, there might have been an advantage perceived in decentralization. Local governments would be better able to tailor policy to suit local economic needs. Second, there is the trade-off between economic efficiency and the efficient allocation of policy according to local preferences. Both Social Security and Unemployment Insurance, being social programs with benefits tied to employment, present a challenge in decentralization. However, because Southern and Northern democrats differed in their preferences for Unemployment Insurance, the political cost of centralizing administration was great. Because it was structured differently and had a precedent, Social Security was less divisive. Lastly, there is the trade-off between political uncertainty and path-dependence. Policy pro-

[10] *Railroad Retirement Board v. Alton R.R. Co.*, 295 U.S. 330, 55 S. Ct. 758, 79 L. Ed. 1468 [1935]

grams preceded social security that served a similar function for veterans and widows, so centralized institutions with experience in administration already existed. Presumably, this institution had already acquired some expertise in the administration of policy, and it would incur some transaction cost to transfer administration elsewhere. Unemployment Insurance, however, was new to national politics, without any successful precedent for administration. Further, because preferences diverged greatly even within the Democratic party on unemployment insurance, politicians saw a great political advantage in delegating policy to the local level, where it would better reflect the diversity of preferences. Re-centralization or further alteration of unemployment insurance by the national-level would also be more difficult after delegation was made to the states. Thus, decentralization protected the preferences of policymakers and their constituents, and insulated this policy against future influence at the national-level, where political power changed hands more often.

To conclude this discussion, I return to the proposition derived from my model above, that the conditional influence of political divergence on the decision to decentralize. Convergence between political actors will motivate decentralization where there is a greater probability of a veto player opposing the policy. Where a veto player is less likely to oppose decentralization, greater convergence will motivate centralization, if a centralized administrative agent is less likely to represent the decisionmaker's preference. In this empirical example, the probability of a convergent agency was likely very similar (and possibly low) for both policies. Because both social security and unemployment insurance were contentious policies, over which there was strong disagreement between political parties, it was probable that the future would bring a change of government, and with it a strong influence on nationalized administration. There was, however, an important difference in the anticipated risk of a Supreme Court veto. Social Security, having an institutionalized national precedent,

was less at risk of having centralization overturned. Unemployment Insurance, having no precedent and being tied to employers, rather than individual contributions, was at greater risk of having centralization overturned. To illustrate this comparison, I turn to a graphical representation of both the theoretical prediction from my model and this empirical example.

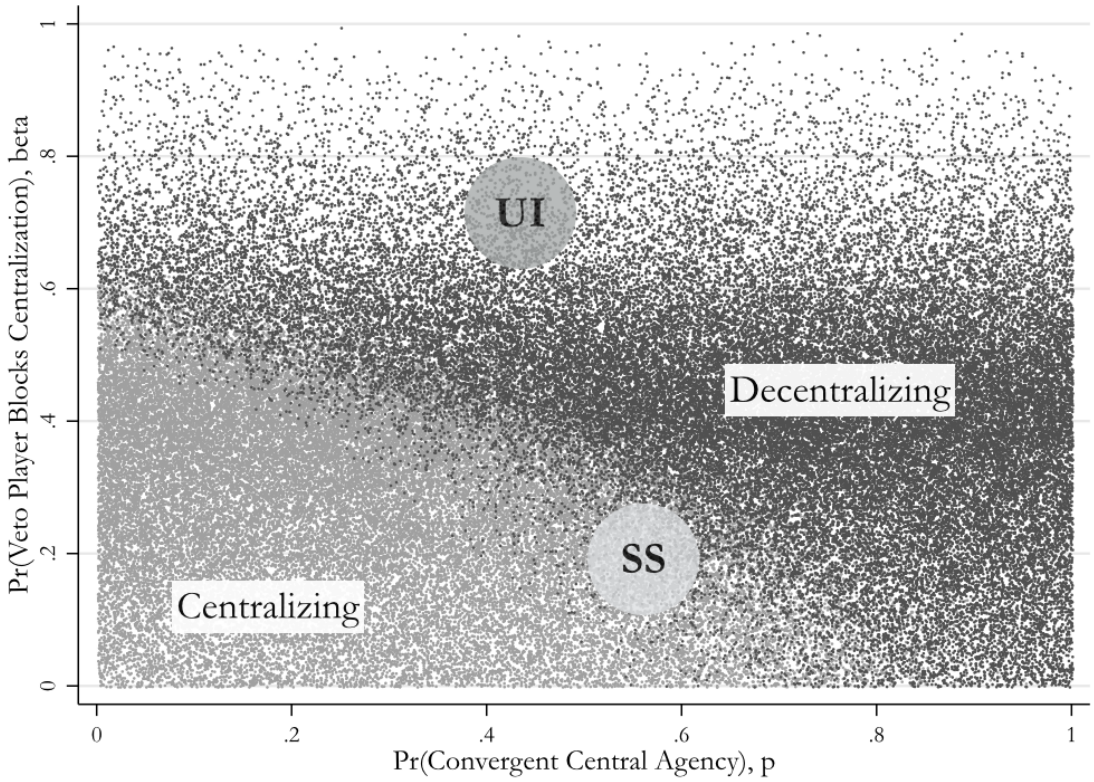


Figure 2.5: Predicted Effect of Political Convergence in Equilibrium

In Figure 2.5, I use simulated predictions to represent the combinations of model parameters for which political convergence will have either a positive or negative influence on decentralization. The vertical axis represents the probability of a veto

player blocking centralization, and the horizontal axis represents the probability of a convergent central agency. In the lower left corner of this figure, where the probability of a veto player blocking centralization is low and the probability of a convergent agency is also low, greater political convergence will incentivize greater centralization. In the darker areas in the upper right of this figure, and the top and right most sides of this figure, greater political convergence will incentive greater *de*centralization. As discussed above, both policy examples were comparable in the probability of having a convergent agency, but they differed in their probability of having a veto player block centralization. Approximating the location of both Unemployment Insurance (UI) and Social Security (SS) in this figure, these two policies fall in different areas. The Social Security example falls in an area where convergence is predicted to incentivize centralization, and the Unemployment Insurance example falls in an area where convergence is predicted to incentivize *de*centralization. Following the proposition of my theory, the trade-offs between various political concerns differed between these policies, with the effect that political convergence might motivate different institutional choices. This offers some insight into a possible explanation of why Social Security was centralized and Unemployment Insurance was not.

2.4 Discussion and Conclusions

In this chapter, I have joined literature from the study of comparative politics on decentralization and federalism with literature from the study of policy delegation to provide a more integrated explanation of delegation choices. This explanation highlights three important trade-offs in the choice to delegate and decentralize. First, there is a critical trade-off between cost of control and oversight, and the advantages gained by delegating to experts. Second, there is a trade-off between economic efficiency and the flexibility of policy to represent diverse interests. Lastly, these

considerations are further shaped by preexisting and persistent policy institutions, which make policy reversals or alterations more difficult. When introducing a new policy, then, decision makers confront these dilemmas in choosing how and by whom a policy will be implemented.

My formalization allows a precise and concise articulation of the multi-dimensional trade-offs in the policy-making process that have already been identified by theories across these two sub-fields of political science. Bringing together these multiple arguments under a single set of assumptions entails notable complexity. This complexity, however, is *necessary* to faithfully represent each factor relevant to institutional choice that has been identified by non-formal theory. The crucial advantage of such a formal expression is the opportunity to examine inter-dependencies in motivations driving policy makers' decisions. Doing so brings to light compelling expectations.

Beginning with the assumption that a policymaker chooses a level of decentralization that is utility maximizing. By integrating multiple perspectives, I offer a new logic of decentralization. This novel lens through which to understand rational decisions to decentralize offers new avenues for future theoretical advancement and testing. The literature on political control has under-theorized how policymakers choose between alternative administrative agents by truncating the range of possible "agents" that are available. In deciding to implement a new policy, there are multiple potential agents from which to choose, including sub-national governments or a centralized agency. These delegation choices deserve attention, because they influence democratic representation and responsiveness.

Further, in the literature studying the political and economic effects of decentralization, it is often not considered whether decentralization, or its consequences, is context-dependent. Formal theory from economics on the inefficiency of decentralization often stops short of endogenizing decentralization as a political outcome

(for example, Oates and Schwab 1988; Wheaton 2000). Political-economy work also frequently assumes exogenously determined institutions (for example, Baicker 2005; Dahlberg and Edmark 2008; Fiva and Rattsø 2006; Rodgers 2005; Shroder 1995; Wallner 2009). Such assumptions are difficult to justify given the implications of institutional choice theory (e.g. Kingston and Caballero 2009; Sellers and Lindström 2007) and historical institutionalism (e.g. Skocpol 1995). Relaxing this assumption may affect the implications drawn from these works, because the decision to decentralize biases the sample of decentralized cases. Decentralization will only occur in those cases where political actors have deemed the political and economic benefits to be greater than the costs, if rational behavior on the part of policymakers is assumed. These preferences may be represented in a number of different policy outcomes. Considering the specific case of social welfare policy, decentralization of administration will have differing effects on the generosity of benefits conditional on the preferences of the principal actor choosing to decentralize. I have argued that delegation and decentralization are a function of political and administrative factors, and I further argue that consideration of the effects of decentralization would be well served by considering the incentives driving the original decision to delegate through decentralization.

From my theoretical model, I have focused on one implication, which can be adapted for empirical testing. Increased policy convergence may incentivize delegation of policy authority through either more or less decentralized agents, conditional on other political factors. *The decision to delegate and decentralize is context dependent*, and should not be explained without accounting for the institutional and political factors that define expected payoffs from different choices. Although I have focused exclusively on one proposition in this chapter, many other theoretical expectations can be derived. In future work I will focus on the implications of this model

with respect to the effects of veto player behavior.

3. BENEVOLENT AND/OR RIVAL COORDINATION? A THEORY OF SOCIAL CAPITAL AND INSURANCE AGAINST ECONOMIC INSECURITY

An understanding of how societies organize to address common risks is at the root of political science inquiry. Risk and uncertainty are inherent in life, and governments respond to these insecurities with a variety of institutions. Where private markets fail to provide insurance against the risks stemming from labor markets, health, and old age, it has become the role of public policy to do so. Governments invest in social insurance and spend on temporary assistance to buffer citizens from these economic perils. Publicly provided social insurance is the compulsory pooling of risk within society to provide a public good– the provision of insurance. Extant work has demonstrated the multiple political and economic factors that shape demand and supply of these programs to produce variation in the structure and generosity of programs. In this chapter, I argue that a substitute for insurance against economic insecurity through public policy is made available by informal societal norms of interaction and cooperation. By considering the available (informal) substitutes for social insurance, I contribute to an understanding of when and why governments expend resources towards the relief of labor market risk.

The question of what drives government supply of social welfare policy is one of the most widely studied in comparative politics. Recent work in the study of social welfare policy has focused on how variation in the distribution of income and risk can affect social welfare policy outputs (Moene and Wallerstein 2001; Rehm 2011), as well as preferences for redistributive policies (Iversen and Soskice 2001; Rehm, Hacker, and Schlesinger 2012). These individual preferences can then cumulate into

political influence (Rehm 2011). Well established research has also shown that various institutions condition the provision of redistributive policy (Esping-Andersen 1990; Hall and Soskice 2001; Hicks and Swank 1992; Kang and Powell 2010; Mares 2003; Martin and Swank 2012). Many of the ideas underpinning these explanations have their roots in the public choice model of insurance, emphasizing the role of information asymmetries and coordination problems in the shaping of social insurance programs (Chiu and Karni 1998; Prescott and Townsend 1984; Rothschild and Stiglitz 1976). I posit an additional piece to the puzzle by highlighting an alternative to public policy as a source of insurance against economic insecurity: social capital. The latent propensity for cooperation fostered by social capital manifests in variegated coordinating institutions, and as Martin and Swank argue regarding the development and functioning of social welfare institutions, "processes of collective engagement matter" (2012, 6).

In developing and articulating this theory, I maintain a focus on social insurance, and on unemployment insurance specifically, because unemployment is "undoubtedly, the most 'problematic' social risk" to insure (Mares 2003, 106). Competitive private insurance of individual job-loss risk is generally non-existent. Because unemployment risk involves problems of moral hazard, adverse selection, and non-independence of risk, private markets for voluntary insurance of unemployment fail. This is not strictly the case with other social insurance policies such as health and pension programs. Limiting my investigation to a policy area with only two feasible insurance options (informal or public, without a private market option) allows a more parsimonious set of expectations and empirical tests.

This theory also contributes to the growing literature on the political importance of social capital. I argue that social capital brings multiple forces to bear on the policy making process, but these influences depend on the broader risk context. After I

discuss my novel conceptualization of social capital, I introduce a comparative political economy theory of social insurance coordinated by social capital mechanisms. I argue, and find evidence, that social capital serves more than one function in society, having plural influences on the provision of public policy. First, a "voluntary and charitable" dimension of social capital may rival government insurance by serving as a substitute for public policy programs. Second, a "civic and political" dimension may serve a more benevolent role by promoting policy responsiveness through the coverage and generosity of social insurance programs. I take a new perspective in the study of social capital and public policy, and I suggest that theories of their relationship should be attentive to the multiple forms this capital may take. In my empirical analysis, I show that social capital may both push and pull public program responsiveness to community risk. Previously mixed findings may be attributable to the confluence of these distinct effects.

In the following sections I review existing theories of both social capital and social insurance institutions, I posit a more nuanced explanation of their relationship in market economies, I introduce a set of social capital measures, and I offer a test of my theoretical expectations in the context of the U.S. states. I conclude by discussing the restrictions and broader implications of these findings for the study of social capital and public policy.

3.1 Institutions of Coordination in Comparative Political Economy

The question of how actors coordinate to provide public goods like social insurance in capitalist market economies has inspired a long line of theory in the social sciences. Modern political science explanations of cross-national variation in coordination between market actors have come to focus on the importance of inequality and strategic interactions between market actors, while giving attention to the durability

of societal and political institutions. The cornerstone of these works is collective action theory (Olson 1965, 1982) and the view that market outcomes are the consequence of coordination between actors, which is mired in problems of moral hazard, asymmetric information, and shirking (Milgrom and Roberts 1992). Scholarly attention was first paid to the impact of increasingly open market economies on the coordination of social insurance (Cameron 1978; Katzenstein and Katznelson 1985) before shifting toward the equilibrium effects of institutions on coordination (Hall and Soskice 2001; Thelen 2004). More recent research is now occupied with identifying the direction of causation between labor market and/or social welfare institutions and inequality (Beramendi and Rueda 2014; Rueda and Pontusson 2000; Scheve and Stasavage 2009), two phenomenon theorized to be endogenously determined (Iversen and Soskice 2009; Martin and Swank 2012).

To explain institutional differences in market economies, some have pointed to cleavages within society as the impetus for coordination (or lack thereof). With this view, patterns of redistribution and public insurance against economic insecurity are the manifestation of conflicts between societal groups, often rooted in class or income (e.g., Bradley et al. 2003; Korpi 1983, 1989; Korpi and Palme 2003), which persist through path-dependency over time (Bonoli 2003; Brooks and Manza 2006; Esping-Andersen 1990; Skocpol 1992). The success of labor unions in coordinating and representing the interests of workers is foundational to these explanation of publicly provided social assistance and insurance. By theorizing on strategic interaction between multiple self-interested actors in a labor market (Scharpf 1997), this latter approach brings to light the importance of institutions and multi-actor relationships in an economy.

Taking a different view of market interactions, others have considered the circumstances in which the preferences of firms/managers and workers might be brought

into alignment by preexisting labor market and political institutions (for example, Hall and Soskice 2001; Mares 1997, 2003, 2006). Firms recognize the advantages for productivity from the preservation of human capital, and where institutions promote cooperation with labor interests, economies are characterized by formally coordinated institutions insuring worker health and investment in skills. The resulting spectrum of "varieties of capitalism" ranges from "coordinated market economies" (CMEs) to "liberal market economies" (LMEs), with the former investing relatively more in skill specificity and comprehensive social benefits, and the latter exhibiting more contentious labor-employer relations and limited social programs.

Advancing this line of inquiry, and continuing the theoretical shift away from the determining influence of labor power, Martin and Swank (2012) argue that the organization of employers' associations is the key to explaining social welfare policies cross-nationally. In the process of industrialization, they argue that partisans and bureaucrats on the right established centrally organized multi-sector associations in some countries to coordinate against democratization and to cultivate support for their own self-interested industrial development agendas. Though initially organized by overtly non-democratic and non-populist motivations, those economies with the strongest (most coordinated) associations saw the most egalitarian institutions arise over time. Coordinated employers associations capable of aggregating business interests maintained political and functional clout, and found the net cost of investing in social welfare programs to be less than did disaggregated business interests elsewhere. Multi-party systems with centralized governing institutions perpetuated these well-organized "peak organizations." From this perspective, the burden of explaining coordination of social insurance in capitalist markets is put on the influence and preferences of firms, in contrast to earlier emphases on labor organization.

Martin and Swank (2012) further argue that these early patterns of organization

resulted in three ideal types of modern market coordination: macrocorporatist systems, sector coordination, and pluralist systems. The first of these types exhibits centralized and highly organized coordination to address collective concerns with employers, labor, and government through non-legislative channels. The second of these types sees cooperation between firms and labor at the sector-level, with long-term cooperation among (sector-specific) firms for research and development, relations between suppliers and and purchasers, and labor-management interactions. The third type, the pluralist system, is characterized by several weak employers' associations capable only of limited cooperation. The United States typifies this last manifestation of organization. The consequence of coordination in this theory for social policy development is severe. Where employers were less successful in coordination, collective action problems were less easily resolved and particularistic self-interests endured to obstruct the development of comprehensive egalitarian policy institutions. To summarize in Martin and Swank's own words (2012, 27):

> "Better-organized, encompassing and centralized organizations do more to educate members about the benefits of social policy, to help members define common ground, and to solve the transaction costs of collective action. Thus, the survival of egalitarian social protections depends, in part, on whether well-organized groups can continue to bring employers together and on the structures and strategies of the state to bolster the institutions of coordination."

These most recent explanations of institutions in market economies, namely the Hall and Soskice (2001) VoC framework and the employer-centered theories of Martin and Swank (2012) or Mares (2003), point to *coordination* as key to explaining not only the development of social welfare institutions in developed democracies, but

also their continued role in society. Hall and Soskice (2001) explicitly discuss the coordination problems inherent in (1) industrial relations between labor and employers, (2) vocational training and education, (3) corporate governance, (4) inter-firm relations, and (5) intra-firm relations. Martin and Swank (2012) similarly identify the coordination problems arising in relations between (1) employers and labor, (2) business and government, and (3) among firms. How (if) market actors cooperate to resolve these coordination problems is argued to shape the development of social policies, and determine their responsiveness to social risks. Historical path dependent processes, political institutions, and early partisan involvement explain the contemporary organization of business and labor interests. The comprehensiveness of social welfare policies are a consequence of the capacity of these organizations to coordinate within and between one another and resolve collective action problems. To distill the relevant lesson from this literature, where formal and informal institutions generate coordination between market actors, governments find more political support for investment in social insurance programs.

In the following sections, I recast this discussion of coordination between actors in the light of social capital theory. If institutions of redistribution and social insurance result from repeated strategic interactions between trade unions, clients, suppliers, stakeholders, business associations, and governments, then variation in support for the unemployed must be explained by coordination among these multiple actors. As I will discuss below, social capital institutions promote coordination in a variety of ways that will affect public policy.

3.2 Social Capital: A Review and Reconsideration of the Many Empirical Correlates

Whether social capital can make us healthy, wealthy, and wise, as early theory suggested, is contingent on the context of political institutions, inequality, and polarization (Boix and Posner 1998). First, social capital (SC) institutions encourage cooperation, but this propensity can be directed toward purposes improving equality or to malevolent/antisocial ends (Putnam 2000). The realized effects of SC depend on the goals or preferences of those engaging in cooperative ventures. Second, there are multiple mechanisms through which SC affects cooperation, and some involve interaction with politics or public policy. In extant research, SC has been linked to a broad range of empirical outcomes, yet the theorized mechanisms are often only vaguely specified or fail to account for context dependencies.

3.2.1 The Political

The SC outcome of primary interest to political science is improved quality of government. Research in other disciplines, namely education and sociology (Bourdieu 1986; Coleman 1988*b*), has argued the importance of SC for both individual and aggregate outcomes, but it was Putnam (1993) who brought SC theory into mainstream political science. First in a comparative study of democratic governance in Italy (1993), and then refined within the US context (2000), Putnam underscores SC's role in the functioning of bureaucratic and political institutions. As a resource that resolves collective problems, fosters trust and reciprocity, encourages a sense of linked fate, facilitates flows of information, and better equips individuals to handle trauma or hardship, SC is argued to improve the lives of community members. A posited consequence of this cooperation and "public-spiritedness" is increased civic engagement to foster participatory and egalitarian democracy (Putnam 2000).

Some notable works point to a positive relationship between SC and quality of government (Putnam 1993, 2000) or perceptions of performance (Jottier and Heyndels 2012), while others offer less consistent evidence (Doh 2014; Knack 2002; Tavits 2006). Knack (2002) finds a positive association between quality of government with some aspects of SC (volunteering, trust, and census response) but a negative association with others (civic engagement as informal networking and associational activities), suggesting there may be more than one dimension of SC. In a cross-national study, Doh (2014) finds the effect of social capital to be dependent on economic development. Evidence against a uniform or unconditional effect on government or administrative performance is further generated by research on public management. For example, the relationship between organization-level SC and public organizational performance is shown to depend on managerial quality or strategy (Andrews and Brewer 2013, 2015; Compton and Meier 2015; Meier, Favero, and Compton 2014), or on the dimension of social capital considered Andrews (2011*a*,*b*).

3.2.2 The Organizational

The link between SC and public policy or service provision relies, in part, on it's productivity enhancing effects on intra-organizational interactions and on coordination between public and private actors. The expectation that policy outcomes are improved by more efficient bureaucratic functioning is especially acute in the context of public services that rely on the efforts of clients and other community members to coproduce public goods, including fire and police services, social welfare and public health services, or education (Andrews and Brewer 2010; Schneider 2006; Sharp 1980; Whitaker 1980). A rich literature has focused specifically on the latter policy area of education. Empirical evidence has accumulated across disciplines that student achievement, particularly student behavioral outcomes, is higher in the

presence of social capital (Coleman 1988*a*,*b*; Dika and Singh 2002; Goddard 2003; Israel, Beaulieu, and Hartless 2001; Leana and Pil 2006; McNeal Jr. 1999; Perna and Titus 2005; Portes 1998; Sandefur, Meier, and Campbell 2006; Sun 1999). More recent evidence suggests, however, that the anticipated organizational benefits of SC do not always accrue in education outcomes, but have disparate effects across race or class (Hawes and Rocha 2011; Hero 2003; John 2005; Kao and Rutherford 2007; McNamara, Weininger, and Laureau 2003), and the effects of this SC for education are conditional on management strategy (Compton and Meier 2015; Meier, Favero, and Compton 2014).

3.2.3 The Economic

Beyond the influence of SC on bureaucratic or governance outcomes, previous theory and research has connected SC to a series of economic outcomes. As Woolcock and Narayan (2000) summarize, SC should promote economic productivity by fostering communication (information) between actors in a market economy, building networks, creating sustainable formal institutions to promote functioning markets, or by encouraging productive synergies between public and private actors (e.g. less corruption). These theoretical mechanisms have implications for the comparative study of economic development and social welfare policy. Evidence has accumulated in favor of a positive association between SC and growth (Beugelsdijk and van Schaik 2005; Guiso, Sapienza, and Zingales 2004; Whiteley 2000), labor market fluidity (Matthews, Pendakur, and Young 2009; Mouw 2003), or innovation (Akçomak and ter Weel 2009; Miguélez, Moreno, and Artís 2011; Tsai and Ghoshal 1998). With particular relevance to economic development, SC is also associated with increased risk-pooling or lending (Cassar and Wydick 2010; Millo and Pasini 2010; Petrikova and Chadha 2013) and the provision of public goods (Anderson, Mellor, and Milyo

2004).

Further, SC is associated with certain individual economic behaviors, such as direct assistance or exchange of favors between individuals within communities (Jackson, Rodriguez-Barraquer, and Tan 2012), with a consequent increased charitable and nonprofit sector activity (Brooks 2005; Saxton and Benson 2005). Also, evidence suggests that SC may promote preferences for redistribution (Yamamura 2012). Conclusions from these studies, however, are not entirely positive or consistent. Direct assistance or "sharing obligations" may have negative consequences for aggregate income growth, thereby reinforcing income inequality (di Falco and Bulte 2011; O'Brien 2012). Critically, studies that consider more than one dimension of SC often find mixed results. For example, Knack and Keefer (1997) and Knack (2003) find civic norms and trust to be positively associated with economic growth, but only limited evidence for a link between performance and membership in organizations.

Arguments supporting these multiple theoretical associations between social capital institutions and political or economic outcomes have grown, but the empirical implications are not consistent. As Putnam (2000), Hero (2007), and others have argued, SC should not be viewed as a uniformly positive or benign force in society. Whether these institutions contribute to the wellbeing or equity of democratic governance and outcomes theoretically and empirically unclear, or context dependent. The mixed evidence yet produced by literatures across the social science highlights the need for both a consistent SC conceptualization and conscientious theorizing of causal mechanisms. In the following sections, I first articulate a concise definition of SC and I expand upon the *mechanisms* through which social capital can shape public policy outcomes, with a particular focus on coordination in market economies.

3.3 An Institutional Theory of Social Capital

As prior work has noted, consensus is lacking in both theoretical and empirical definitions of social capital (Bjørnskov 2006; Boix and Posner 1998; Paldam 2000; Paraskevopoulos 2010; Sobel 2002), with disagreement pivoting on the most valid level of measurement and the inclusion of trust in the concept. Theoretical conceptualizations of this "resource" vary in their inclusion of institutions, attitudes, behaviors, and/or their consequences. Some have argued a rational choice theory of SC as individual behavior including trust (Valdivieso and Villena-Roldan 2014), while others have advocated an institutional theory of SC as a set of informal norms (Boix and Posner 1998; Ostrom 1990). The canonical definition offered by Putnam (1995, 664-65) defines SC as the "...features of social life–networks, norms, and trust–that enable participants to act together more effectively to pursue shared interests." This definition proliferates throughout the literature, despite the conceptual ambiguity. In the following, I identify the domain of social (or individual) phenomena to be validly incorporated as social capital and I theorize on their consequences for public policy.

The first conceptual discrepancy is in the inclusion of trust in an SC definition. Some view trust as epiphenomenal to the social connections, networks, and norms commonly included in an SC concept (Brehm and Rahn 1997; Keele 2007; Putnam 2000), or to the consequent political and bureaucratic benefits of social capital (Kumlin and Rothstein 2005; Larsen 2007; Rothstein and Teorell 2008). This contrasts, however, with the definition offered by Coleman, one of the first scholars to theorize on SC in the social sciences, who defines it as the "obligations and expectations, which depend on trustworthiness of the social environment, information-flow capability of the social structure, and norms accompanied by sanctions" (2000, 36). With

this perspective, trustworthiness is a precondition for the institutions of SC and the consequent cooperation (Paldam 2000). This conceptual discrepancy is reinforced by empirical evidence that trust and the non-attitudinal components of SC are correlated differently with outcomes of interest. Growing evidence favors a separate consideration and measurement of trust and SC (Bjørnskov 2006; Paraskevopoulos 2010; Rothstein and Teorell 2008; Valdivieso and Villena-Roldan 2014); with respect to economic growth and investment (Beugelsdijk 2009; Beugelsdijk and van Schaik 2005; Knack and Keefer 1997), corruption (Paldam and Bjørnskov 2004), better governance (Knack 2002), or life satisfaction (Bjørnskov 2006). This research suggests that the trust and network components of social capital may be distinct phenomena, each serving a unique function in society.

Here I remain agnostic about the causal ordering of trust and the manifestation of social behavioral norms. Instead, I take an institutional approach in defining SC, with institutions being the socially devised rules that determine who is involved in decision making, what options are restricted, how preferences are aggregated, what information is necessary, and how payoffs will be distributed (North 1990; Ostrom 1990). With a similar perspective, Ostrom defines SC as "the shared knowledge, understandings, norms, rules and expectations about patterns of interactions that groups of individuals bring to a recurrent activity" (2000, 176). SC, then, is "a set of institutionalized expectations that other social actors will reciprocate co-operative overtures" (Boix and Posner 1998, 686). Distinguishing between SC institutions and other informal societal institutions thus becomes a question of their contribution to coordination.

Generally, cooperative behavior is maintained through repeated practices and the consequent establishment of common expectations (Lubell and Scholz 2012; North 1990). The established and durable processes (institutions) constituting SC shape the

propensity for solving common resource problems by reducing the cost of monitoring and sanctioning (Ostrom 1990), thereby addressing moral hazard and incentive problems (Millo and Pasini 2010; Stiglitz 2000) to improve future flows of income (Ostrom 1994). The provision of public goods, then, is critically influenced by the existence of institutions maintaining cooperation—social capital.[1] Indeed, if routinized cooperation is possible only with supporting institutions, SC may be *necessary* for a range of public or common goods, be it a free market, a sustainable ecosystem, or redistribution for social security.

Reflecting this conceptualization, I define SC by differentiating structural aspects and their effects. *Social capital is the set of informal institutions that maintain and incentivize cooperation.* This includes any constraint that humans devise and practice to support cooperative behavior. A social capital institution is any routinized behavior or societal norm that generates mutual benefits to the actors involved, without requiring that the net benefit to every actor be greater than the individualized cost. In so doing, SC affects the propensity for collective action and the production of public goods. Formal institutions that require or result in these behaviors are necessarily second-order; they are the consequence of SC. Any formal institution designed to foster or maintain coordination is inexorably preceded by informal social capital institutions.

This conceptualization of SC also departs somewhat from that offered by Hero (2007). In his critique of the Putnam and others, Hero (2007) highlights the multiple intellectual traditions of political thought that underwrite SC theory. In doing so, Hero ascribes to SC a system(s) of beliefs about the proper role of the state, hier-

[1]Public goods, borrowing Samuelson (1954) definition, are "[goods] which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good." They are to some degree both non-rivalrous and non-excludable.

archy, and individual (civic) responsibilities with an emphasis on the role of racial diversity in the development of these political ideas. While these philosophies define a context and shape the goals for which societies coordinate, I view the SC institutions themselves through a neutral lens. SC institutions facilitate coordination regardless of the motivating goal or the realized political, economic, or social outcomes. The crucial contribution of Hero (2007) is the recognition of SC institutions' context dependency: the consequences of SC are conditional on the values and beliefs of the actors themselves, emphasizing the traditions of civic republicanism and racial diversity in the American case. With this perspective, a significant empirical relationship between SC and economic and civic equality (Putnam 1993), or any other outcome, should not be assumed as the modal outcome.

The second discrepancy persisting in the literature on social capital concerns the appropriate level of conceptualization: is SC an individual or an aggregate phenomenon? Some advocate a micro-level definition of SC as an individual attribute, attitude, or preference (Bourdieu 1986; Brehm and Rahn 1997; Jackman and Miller 1998; Poulsen and Svendsen 2005; Wright 2015), and some take SC as a macro-concept that manifests in societal level features of community life (Coleman 1988*b*; Hawes, Rocha, and Meier 2013; Keele 2005; Putnam 2000), while others hold a middle ground defining SC as a characteristic of organization within small groups (Ostrom 1990). Having defined it as a set of institutions, SC is logically a macro-level phenomenon that conditions individual behavior. Although its effects will be observable in individual behavior, it is the aggregate pattern of behaviors that define social capital.

3.3.1 The Coordinating Mechanisms of Social Capital

Having defined what social capital is and discussed what it is theorized to do, I now turn to a discussion of *how* social capital does what it does. In the most general sense, social capital makes coordination less difficult (costly). Coordination is fundamental in the provision of common (non-market) goods and services (e.g., Hardin 1982; Olson 1965; Ostrom 1990), and social capital can deliver the prerequisite cooperation. SC, as institutionalized rules and expectations, can allow actors to overcome collective action problems and work together for a mutually beneficial goal. In its most simple form, SC "may involve no more than filling in the lacunae left in a general system of law" (Ostrom and Ahn 2003, 256). These informal rules in modern democratic free market systems reduce the transaction costs of formal coordination, including contracts, hierarchies, and bureaucratic rules (Fukuyama 2000). The willingness of actors to cooperate rests on the shared expectation that "a considerable fraction of members are willing to engage in the costly punishment of shirkers," even where repayment for the cost of sanctioning is unlikely (Bowles and Gintis 2002, 425). Where agreement exists on the value of a common good, but formal contracts fail to ensure (cost effective) compliance, informal SC institutions allow the exchange of information necessary for monitoring and enforcement. Indeed, as Fukuyama (2000) argues, "The fact of the matter is that coordination based on informal norms remains and important part of modern economies and arguably becomes more important as the nature of economic activity becomes more complex and technologically sophisticated."

No general set of rules will guarantee successful coordination, and the nature of effective SC institutions depends on cultural traditions, environmental conditions, extant institutions, and monitoring, sanctioning, and conflict resolution mechanisms

(Ostrom 1990; Ostrom and Ahn 2003). Further, the distribution of benefits from the reduction in transaction costs will depend on the actors or institutions involved. First, where social capital coordinates with formal state and political institutions, it may contribute to diffuse and less-excludable goods and services. On the other hand, where social capital coordinates through direct assistance and non-state mechanisms, it may contribute to public goods that are less widely dispersed with benefits more closely confined within some groups. Figure 3.1 illustrates my postulated connection between social capital institutions, coordination through cooperative ventures, and the realization of public goods. Social capital institutions may promote the coordination of public goods and services through *political and civic* institutions or through direct *charitable and voluntary* means.

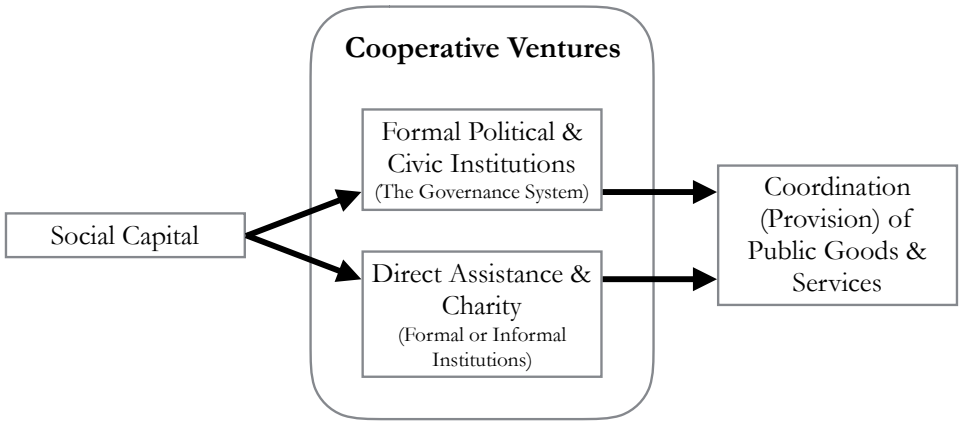


Figure 3.1: Mechanisms of Social Capital Influence on Provision of Public Goods

In the following sections, I present a theory of social capital's role in social insurance through these two mechanisms, and I explain how these coordinating mechanisms dovetail with extant theory of public policy in developed capitalist economies.

Because coordination is fundamental to theories of market institutions, including public policies like social insurance, theory of social capital can add additional insight into what drives government responses to stimuli like economic insecurity. In other words, I recontextualize the arguments from dominant approaches in the study of political economy with insights from social capital theory to offer novel theoretical expectations.

3.3.2 Coordination for Unemployment Insurance

Coordinating and implementing social programs that insure against the risk of unemployment has historically proved difficult (for example, Mares 1997; Sjoberg, Palme, and Carroll 2010). An optimal (efficient) unemployment insurance (UI) program incentivizes workers to work effectively and to move into jobs for which they are most productive, and will also encourage workers to acquire (specific or technical) skills as technology evolves (e.g., Baily 1978; Barr 1987). Too little insurance inhibits risk taking and efficient investment in skills, and too much insurance exacerbates problems of moral hazard and suboptimal employment (e.g., Acemoglu and Shimer 2000; Hopenhayn and Nicolini 1997; Karni 1999). In comparison to insurance of other risks related to health, retirement, or workplace injury, the efficient insurance of unemployment is actuarily unsound without universal compulsory participation (Barr 1987), leaving the task of insuring workers against unemployment to either informal or government institutions.

In the absence of centralized coordination, fractionalized business interests faced with carrying the burden of financing unemployment insurance have historically disagreed on (1) whether unemployment insurance should be contributory or assistance-based and (2) how risk should be redistributed across occupations and industries (Amenta et al. 1987; Hall and Soskice 2001; Kim 2010; Mares 2003; Skocpol 1992,

1995). Variation in government responses to provide insurance for the unemployed in capitalist democratic countries is explained by partisan politics and political institutions, and, as I argue, informal social institutions. As discussed above, the predominant political economy explanation of social insurance development relies on coordination between managers, workers, and political actors. Where managers successfully organized to coordinate with governments to invest in long-term workforce productivity, generous and universalistic social insurance programs arose (such as the Danish system). In other countries, however, coordination stalled due to partisan conflicts (largely due to two-party systems), which challenged the representation of employer groups, or due to federalism, which hampered national cooperation of economic interests (Martin and Swank 2012). Coalitions in support of social protection programs were unsustainable or ineffective, and the provision of social insurance remains comparatively limited in scope (as in the US or Great Britain) or is relegated to sector-level organization, as in France or Germany (for description, see Vroman and Brusentsev 2005).

Without diminishing the importance of formal (partisan and federal) institutional arrangements in explaining the *development* of insurance programs, I argue that variation in UI coverage or generosity within political (electoral) institutional arrangements is due the coordinating effects of informal social capital. Through either political and civic or direct charitable and assistance mechanisms, SC institutions shape the willingness of business interests and workers to support a UI program, and also shape the responsiveness of public policy and administration. On the one hand, SC fosters the coordination in policy making to better represent both business and worker interests, thereby shaping public policy outputs. On the other hand, SC facilitates informal efforts to address common needs, like economic insecurity from unemployment, thereby serving as a *substitute* for government programs.

My theory of social capital in facilitating social insurance is most relevant in contexts lacking strong and formal organization of actors: the "pluralist" systems of business representation, in Martin and Swank's (2012) typology (or in LME systems to use the Hall and Soskice (2001) VoC characterization). In these systems, coordination rarely exists above the firm level, and "Few formal channels for coordination join business in consultation with unions and government, and employers' input into public policy is largely limited to the legislative process" (Martin and Swank 2012, 18). Where institutions are comparatively inhospitable to cooperation, it is the informal SC institutions that serve the critical role of "providing capacities for the exchange of information, monitoring, and that sanctioning of defections relevant to cooperative behavior among firms and other actors" to achieve coordination of social insurance (Hall and Soskice 2001, 11). In this environment, where the deck is stacked against coordination, informal SC institutions have a role to play in promoting cooperative ventures to provide social insurance.

3.3.2.1 Political & Civic Coordination

The first mechanism through which social capital coordinates public goods and services is by interacting with political and bureaucratic institutions. By facilitating coordination between governing institutions and private actors, and by reducing the cost of transferring information about community problems to policy makers, SC expands the capacity of *public institutions* to provide public goods. First, as Boix and Posner (1998) posit, SC institutions may enhance the capacity for cooperation within and between bureaucratic organizations, and non-governmental organizations, to achieve public policy goals. This propensity for cooperation extends to private labor market actors, including labor and employers. Following the theoretical arguments of Martin and Swank (2012) and others, where coordination is more likely be-

tween private market actors, the coverage of government social insurance programs, and unemployment insurance specifically, should be more comprehensive.

Second, norms of civic participation or engagement with community affairs reduce the cost of articulating collective interests to political leaders. Interaction with civic organizations facilitates the flow of relevant information, allowing politicians and bureaucrats to better represent community needs and interests to solve local issues. The consequence of this transference of political information should be more sophisticated policy-making that identifies and addresses community problems with greater efficiency (Tavits 2006), and may be more responsive to changes in needs or risks.

Social welfare programs are particularly reliant on this form of SC coordination, because administration of benefits requires community outreach and coordination across both government agencies and non-profit non-governmental organizations (e.g., the United Way). The efforts of public employees to contact and coordinate with clientele, social service organizations, community organizations, provider coalitions, and advocacy coalitions are made more effective by SC (Kay and Johnston 2007; Schneider 2006). To put this into more substantive terms, in a context of greater social capital, public employees may be more likely to pick up the phone or walk down the hall to coordinate with those working in other programs or for other organizations. These norms can generate and spread more sophisticated information about all available sources of public assistance, which public employees (and other organizational partners) can use to better serve clientele. Having better and more frequent connections with community organizations means that public programs may have fewer obstacles in identifying and enrolling eligible clientele. SC advantages the administration of these policies, producing higher take-up rates and more comprehensive coverage of workers in social insurance programs.

Where SC facilitates contact between citizens and public institutions to spread information and foster cooperation among market, bureaucratic, and political actors, it should be associated with more generous or more comprehensive social insurance programs.

HYPOTHESIS 1: Benevolent Coordination

> Public social insurance is *more comprehensive* where social capital coordinates through *civic & political* institutions

Further, the influence of social capital in mobilizing policy responses to common needs should be stronger where the salience of that need (risk) is greater. By increasing the efficiency of public agencies in recruiting and serving clientele or by increasing the awareness of public employees to the salience of risk, for example, SC will push public programs to spend more in response to macroeconomic risk than they otherwise would. In other words, by coordinating through policy or political institutions, social capital fosters more comprehensive social insurance programs, but I argue that greater macroeconomic insecurity will increase this effect as SC mobilizes in response to the magnitude or salience of common needs.

HYPOTHESIS 1_b:

> Public social insurance is *more comprehensive* where social capital coordinates through *civic & political* institutions, and this effect is *greater* where economic insecurity is higher.

However, for the reasons discussed above, equality in representation of interests or policy outcomes is not a necessary consequence of political and civic social capital. Interaction between community or private actors and public institutions may yield greater efficiency in public service, but this channel of influence remains susceptible

to the interests representing biased, malevolent, or anti-democratic preferences. SC can also facilitate coordination without political involvement, which may have a different effect on public policy outputs.

3.3.2.2 Direct Charitable & Voluntary Coordination

The second mechanism of SC coordination operates through voluntary or charitable activity. Network interactions or organizational activities can transfer information about community problems, as well as provide services and goods to directly resolve common problems or address individual needs (Bowles and Gintis 2002). In doing so, SC facilitates community activities that may substitute for social insurance policies, thereby reducing the need or demand for public policy.[2]

First, because social capital is thought to make information about the community and other individuals easier to obtain (Bowles and Gintis 2002; Jottier and Heyndels 2012), the magnitude of risks and need for assistance may be better communicated. Awareness of problems and mobilization to help in times of need are both facilitated by interaction, networks, and possibly also by social norms. Indeed, social capital is associated with higher levels of charitable giving or support for redistribution (Brooks 2005; Wiepking and Maas 2009; Yamamura 2012). Charitable organizations seeking to provide assistance can benefit from information, greater interest and participation, and charitable donations, all of which make their efforts more effective. For example, organizations like the United Way make it a priority to help families manage financial risks. In fact, promoting income stability is one of the United Way's three primary objectives, along with the promotion of education and health. They do this by helping families locate affordable housing, find and maintain employment, develop

[2]Either because the institutions are circumscribed within a group or because they are more susceptible to malevolent interests, their benefits may be privately realized only among privileged few. Again, equality in access to these SC institutions is not guaranteed, but those community actors with access should find social interactions more productive in resolving problems.

spending and savings plans, and they connect families to sources of direct income support and help with the application process.

Further, by strengthening social ties and norms of cooperation and reciprocity, social capital may facilitate informal risk sharing. In Putnam's (1993) seminal examination of the effects of social capital on community governance, it is shown to facilitate voluntary rotating credit associations as a form of informal risk-pooling, i.e. insurance. Not only is information on community members' behavior less costly to obtain (Bowles and Gintis 2002; Jottier and Heyndels 2012), but societal norms can increase the costs of defection and incentivize rule compliance (Boix and Posner 1998; Portes 1998). More formally, rule compliance and reciprocity limit the problem of moral hazard with the threat of social stigma, reputation, and pressure. These two functions, information and rule compliance, are critical to the functioning of non-compulsory insurance programs (Barr 2001). However, risk pooling need not take such a formal structure as a credit association. The effect of social capital could be seen, for example, in an employers' increased awareness and response to the threat and consequences of layoffs. When facing an economic downturn, firms with stronger social capital can elect not to fire or layoff workers, but instead reduce wages or hours among all workers, thereby pooling risk (Bowles and Gintis 2002). This kind of risk sharing arrangement has been observed specifically in the plywood industry in the South Eastern U.S. (Craig et al. 1995).

With respect to individual workers, SC institutions transfer information about jobs, employers, and potential employees even if they are not intentionally established for this reason. The extension of networks beyond familial connections to include infrequent interactions with acquaintances is more likely to provide novel information or new job opportunities (Granovetter 1983, 1995; Mouw 2003). Information about professional expectations and norms of behavior is also communicated

more easily in social capital rich communities to further improve job searches and successful employment (Portes 1998). Indeed, evidence suggests that social capital is associated with positive job market outcomes; it helps people find better jobs (Matthews, Pendakur, and Young 2009; Mouw 2003). "Who you know" matters in finding a job, and social capital increases who and what you know (Lin 2002). Individuals may also be more prone to directly help each other, one-on-one, in ways that promote economic insecurity through stable income streams. Beyond its effect on job searches, social capital may help individuals obtain and maintain employment by fostering help with child care, transportation, health care, and emotional/mentoring support (Schneider 2006). These informal services make it easier for people find, obtain, and maintain work outside of the home.

These mechanisms suggest that by encouraging charitable and voluntary activity, SC can resolve collective action problems inherent in the provision of social insurance without the direct involvement of public policy. In this way, SC can coordinate insurance functions that rival formal policy institutions. Alternatively SC may function to reduce the *need* for social insurance by expediting information in labor markets. Therefore, where SC coordinates direct charitable and voluntary activity, public policy will play a lesser role in insuring individuals against risk because insurance is provided through alternative means. In these SC contexts, social insurance should be less generous or comprehensive overall, because market actors coordinate to meet these needs without the involvement of public policy.

HYPOTHESIS 2: Rival Coordination

> Public social insurance is *less comprehensive* where social capital coordinates through *direct charitable & voluntary* institutions

Further, SC coordinates community activity that provide a form of collective insur-

ance, making state policies less relevant in buffering workers against labor market risk. In other words, where SC serves as a functional substitute to social insurance policies, demand and supply of these program services should be unresponsive to macroeconomic insecurity.

HYPOTHESIS 2_b:

> Public social insurance is *less comprehensive* where social capital coordinates through *direct charitable & voluntary* institutions, and this effect is *not conditional* on the level of economic insecurity.

In the following section, I discuss in greater depth the empirical policy context in which I will test these hypotheses.

3.4 The Empirical Social Context of Unemployment Insurance

To test these theoretical expectations, I turn to the U.S. states from 2001-2013. By comparing sub-national governments, I can confidently identify the influence of local social and economic context on programmatic outputs because many of the formal policy institutions in place are uniform across the sample. Also, a reliance on cross-sectional empirical analyses has led to ambiguous findings about social capital more generally (Keele 2005). In this study, I use cross-sectional time-series data, which allow for dynamic inferences. In doing so, I can address some critical weaknesses of prior research on social capital. In this section, I will more fully describe the political context of unemployment insurance in the US, I will introduce novel measures of social capital, and I will discuss the measurement and specification of my empirical models.

3.4.1 Unemployment Insurance in the United States

The Social Security Act (SSA) granted substantial autonomy over many aspects of UI administration to the states, while Congressional legislation and regulations set minimum guidelines for program rules and eligibility requirements. In administering unemployment insurance (UI), each state workforce agency (SWA) balances the influence from a state legislature, executive, business interests, and labor organizations, while seeking to maintain support of their constituency and court systems. This organization has historically resulted in 53 unique UI programs. The existing UI programs vary in their administrative structure, the sectors covered, qualifying requirements, eligibility rules, disqualification rules, weekly benefit amount, waiting period prior to first payment, duration of benefit payments, seasonal provision, and their financing structure (Blaustein 1993). No two state programs are the same.

Regular unemployment compensation is funded through a complex tax-credit scheme, paid mostly by employers and supplemented by federal funds under specific circumstances. Employers pay two taxes: one into to a state account at a tax rate determined by their "experience rating," and one variable tax-rate into a federal account which provides administrative funds, grants and loans to states, and certain benefits payments. Basing tax rates on employer experience was initially necessary to gain sufficient political support from employers, and continues to incite disagreement today (Becker 1981; O'Leary and Wandner 1997). Because employers' tax rates are a function of their experience with layoffs in the past, business interests have an incentive to push for more stringent rules governing employe benefit eligibility. Labor groups have historically opposed experience rating, arguing that the system encourages employers to restrict employee benefits rights and to unjustifiably challenge claims to keep charges and tax rates down (O'Leary and Wandner 1997).

Because each program is separately administered, business and labor influences play out at the state level. First, the state legislature is a formal principal; the preferences of legislators directly influence UI policy through statutory adjustments. Ultimately, SWAs are primarily responsible to state governments because they are directly governed by the rules set by these principals. Evidence of the relationship between state UI statutory provisions and the partisanship of state legislatures and the governor is ambiguous (O'Leary and Wandner 1997, 148). Second, local labor/union and employer/management interest groups have divergent goals. Both groups are involved in state UI programs but employer groups have historically had greater influence (O'Leary and Wandner 1997; Rubin 1983). Employers fund UI through a tax rate depending on the employment and layoff experience of the firm. Businesses have a vested interest in decreasing the number of applicants approved for UI benefits because this will directly affect the tax rate paid by the employer.

3.4.2 A Measure of Social Capital

Because my theory of social capital entails dynamic processes in both space and time, an empirical measure must vary on both dimensions. Despite the claim by Putnam (2000) that SC is declining in the United States and the arguments by Hero (2007) that SC interacts with contexts that vary sub-nationally, such a measure has eluded the literature to date. The most influential SC studies have been limited to variation in one dimension or the other. For example, Putnam's (2000) SC index varies only across space (the US states), Keele's (2007) measure varies only in time (as a national measure), Wright (2015) considers both time and space but only for a non-representative subset of the population (12th graders), and Valdivieso and Villena-Roldan's (2014) analyze multiple survey years across Chile, Brazil, Mexico and the US, but maintain a cross-sectional national-level approach.

One exception to this observation is the Hawes, Rocha and Meier (2013) social capital factor, which measures SC at the state-level from 1988-2004. However, because the authors rely largely on original survey responses obtained from a private marketing firm, they are unable to disaggregate their data entirely, limiting their analysis to 29 clusters of states. Only by supplementing these survey responses with measures of crime and health outcomes from other sources, can they produce an SC estimate for each of the 48 contiguous US states. Although their measure constitutes a substantial advancement for the literature in political science, it is severely limited by the inability to differentiate between community organizational life, engagement in public affairs, and community volunteerism within state clusters. Perhaps the most problematic cluster is the lumping together of the southwest states New Mexico, Arizona, Utah, and Nevada. The Hawes, Rocha, and Meier (HRM) measure of social capital offers critical over-time variation, but remains limited in the validity of its cross-sectional variation.

To address this limitation in the literature and to produce a measure of social capital across space and time, I turn to the Current Population Survey (CPS) administered by the U.S. Census Bureau every month. The supplement themes and years included in my measures are reported in Table 3.1. This survey is representative at the state-level, and routinely includes questions on civic participation, volunteering activities, and engagement in public affairs. In aggregating responses to generate state-year level estimates of these behaviors, I overcome some critical restrictions of previous work. First, by analyzing estimated aggregate behaviors, I model SC at a more appropriate level of observation, at a higher level of aggregation than the individual, but lower than the national level. Second, by pooling survey responses across multiple survey questionnaires, I can incorporate measures of each of Putnam's four behavioral components of SC, which reflect my institutional concept: community

organizational life, engagement in public affairs, community volunteerism, and informal sociability. In total, over three million responses over the years 2000-2013 are used to generate these SC estimates.

Table 3.1: Current Population Survey Supplements and Years

CPS Supplement	**Years Available**
Volunteers Supplement	2002-2009, 2011-2013
Civic Engagement Supplement	2008-2011
Voting and Registration Supplement	2000, 2002, 2004, 2006, 2008, 2010, 2012
Participation in the Arts	2002, 2008, 2012
Total Survey Respondents Included:	3,667,079

After selecting question items from the volunteering, voting, participation in the arts, and civic engagement CPS monthly supplements, I combine responses to similar or redundant questions to produce dichotomous measures of individual participation in different types of activities. This process reduces the count of individual survey items from 61 to 36 SC indicators. Those responses originally recorded in ordinal form are dichotomized and those originally recorded as continuous (i.e. total number of hours volunteered) are kept in their original metric. Using the CPS provided probability weights within each state-year-survey supplement, I then estimate state-year levels of participation in each activity. Table A.1 in the Appendix reports the descriptive statistics of these indicators, as observed.

Because some supplements are administered in some years and not others, missing state-year observations for each SC indicator must be dealt with before a factor analysis can be completed. To avoid bias and overconfidence in estimation inherent in interpolation, case-wise deletion, or other methods, I use multiple imputation to account for this incomplete data (King et al. 2001). Missing state-level estimates

of aggregate behaviors predetermined by the year of observation (timing of CPS supplements) are treated as missing at random, as the probability of missingness is not conditional on values of the unobserved data, so I use an iterative Markov chain Monte Carlo multiple imputation method (King et al. 2001; White, Royston, and Wood 2011). This sequential regression multivariate imputation procedure is flexible to accommodate both continuous and truncated (proportion) variables, and produces parameter estimates with fully conditional prediction specifications to account for possible dependence in arbitrary missing data (Raghunathan 2004).[3] Having obtained SC indicators from multiple (10) rectangularized matrices of state-year estimates, I can proceed with my factor analysis. Following the method of Hawes, Rocha, and Meier (2013), I factor analyze the 36 measures using principal component factor analysis. Two factors emerge, with eigenvalues of 7.71 and 5.78 respectively, together explaining 34% of the observed variance. The results of this analysis are reported in Table A.2 in the Appendix. The scoring coefficients from these two retained factors are then used to predict two social capital indices with the multiply imputed dataset.

The first retained factor captures charitable activity, some aspects of community organizational life, most indicators of community volunteerism, and a mix of informal sociability and engagement in public affairs indicators. The items loading most heavily on this first factor include all of the charitable activity indicators, participation in education and youth organizations, volunteering, and overall quantity of time volunteered. Voluntary and charitable activities aimed at direct assistance, with little engagement in political activities, are represented by this first factor. The second retained factor captures community service, engagement in public affairs, and some informal sociability indicators. The items loading most heavily on this factor

[3]The multiple imputation (`mi`) suite of commands in Stata 13 were used for this estimation.

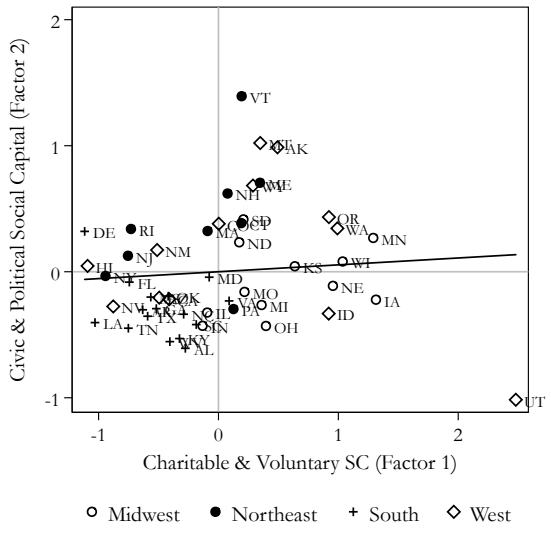


Figure 3.2: Comparison of Social Capital in the United States, 2000-2012 Average

represent direct participation in public affairs and the use of interpersonal networks. I posit that the first factor represents the theoretical charitable SC manifesting in direct assistance through services or goods within a community. The second factor reflects well the theoretical civic and political SC, representing engagement with public affairs and civic participation.

Figure 3.2 represents the average charitable and civic SC measures for each state over the entire 2000-2013 period. These factors are measured to have an overall sample mean of zero and standard deviation of one, thus the quadrants in this figure are determined by the grand mean of each measure. Further, I have included a bivariate fit line between the state averaged measures, which are insignificantly correlated at 0.087. Note that although the two SC measures are orthogonal in the pooled cross-sectional time-series sample ($N = 700$), the state averages over the period demonstrate a slight positive correlation. As shown in Figure 3.2 there is substantial variation within geographic regions along both dimensions, and a few states

stand out in their predicted SC levels. First, the value of charitable SC predicted for Utah far exceeds that of any other state. Similarly, Vermont is predicted to have a higher civic SC value than any other state. This highlights the value of my measures in comparison to the HRM SC factor, which has difficulty distinguishing between the cluster of four southwest states, as well as between the New England states of Vermont, New Hampshire, and Maine. By using SC indicators from a representative survey, I can pull apart these clusters of states to more accurately predict social capital at the state-level. In Figure 3.3, I also show the over-time variation in each social capital measure for each state.

3.4.2.1 Validating the Measure

Table 3.2: Social Capital Factor Correlations

Full Sample (all 50 States)					
	Charitable SC	Civic & Political SC	HRM SC Factor	Putnam SC Index	Trust
Charitable SC	1				
Civic & Political SC	0	1			
HRM SC Factor	0.354*	0.373*	1		
Putnam SC Index	0.453*	0.293*	0.679*	1	
Trust	0.504*	0.194*	0.562*	0.809*	1

Excluding Utah and Vermont (48 states)					
	Charitable SC	Civic & Political SC	HRM SC Factor	Putnam SC Index	Trust
Charitable SC	1				
Civic & Political SC	0.06	1			
HRM SC Factor	0.414*	0.326*	1		
Putnam SC Index	0.472*	0.279*	0.667*	1	
Trust	0.495*	0.194*	0.554*	0.797*	1

Note: *Correlation coefficients reported,* $p < .05^*$.

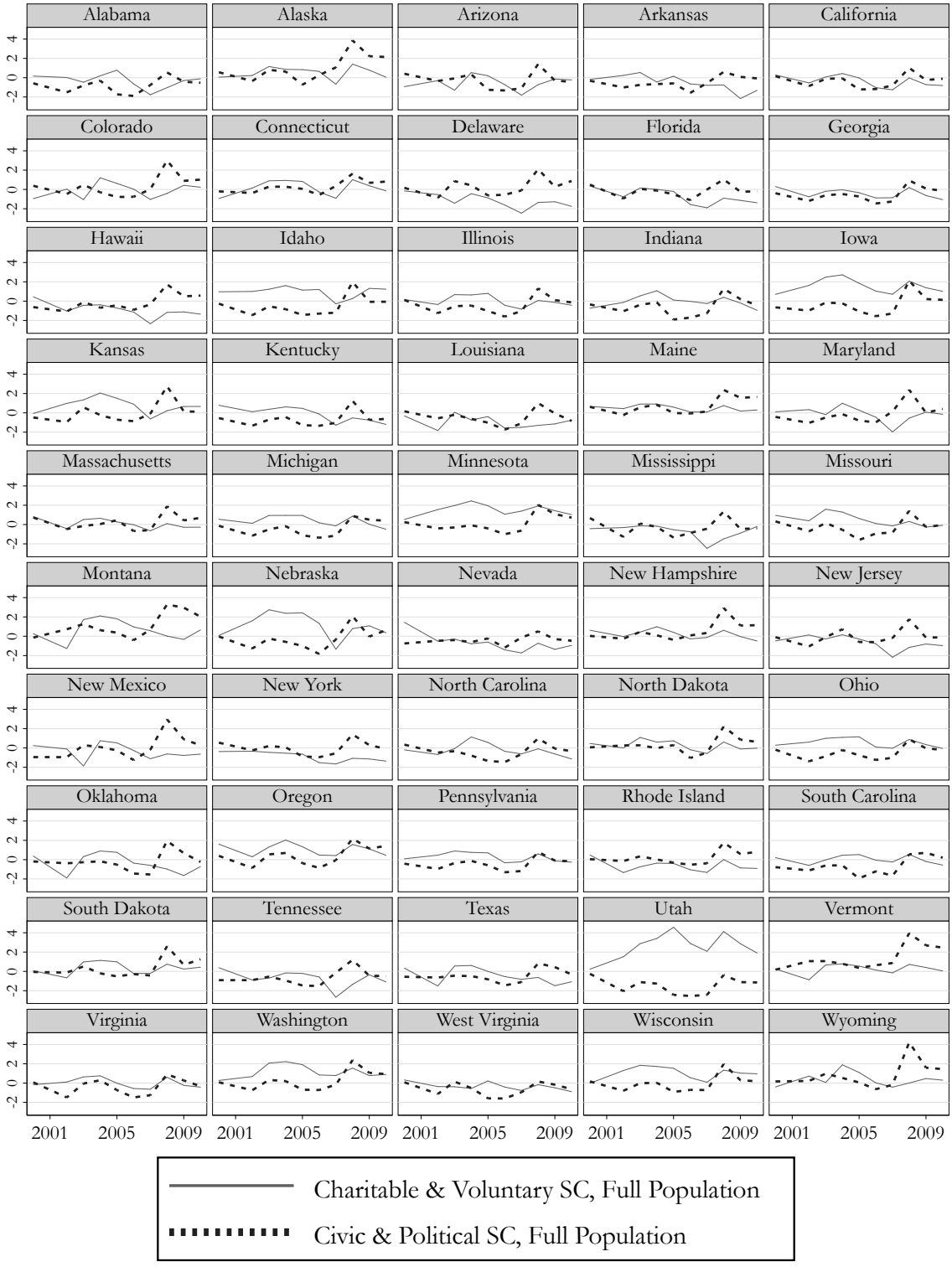
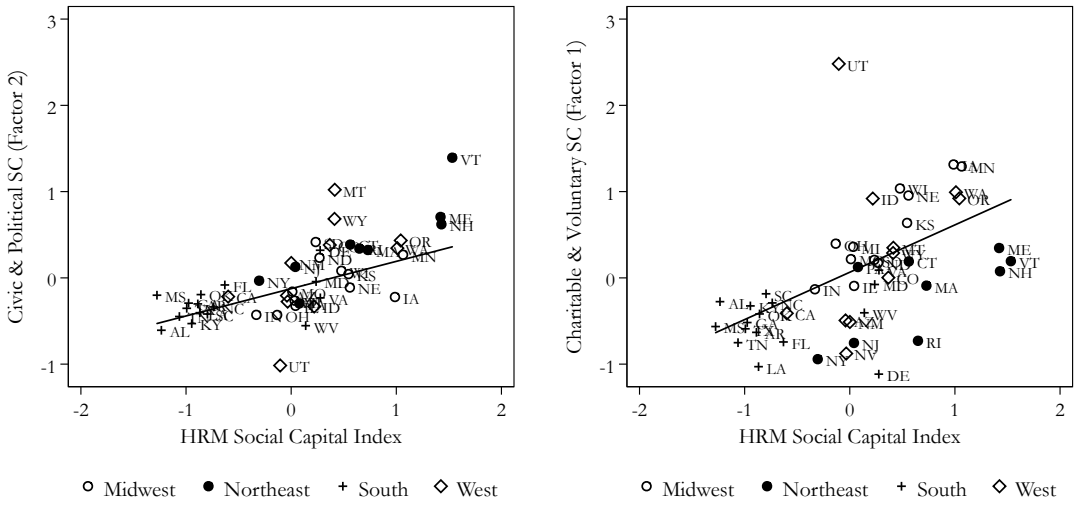


Figure 3.3: Social Capital in the United States, 2000-2012

(a) Comparison with Hawes, Rocha, and Meier



(b) Comparison with Putnam

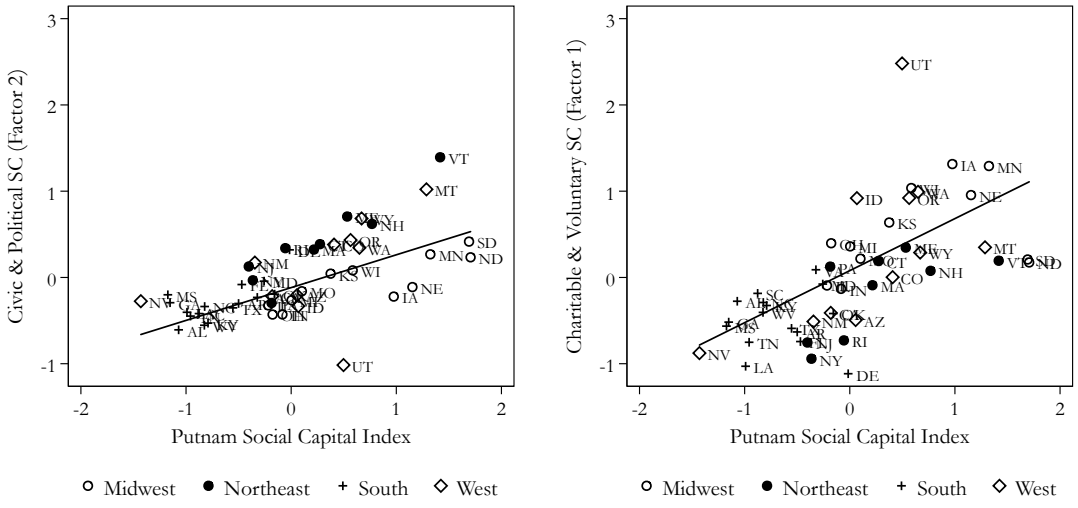


Figure 3.4: Comparison of Social Capital Measures

To further validate my measure, I compare each of my two SC measures to the Putnam (2000) and the HRM (2013) SC estimates in Figures 3.5a and 3.5b, respectively. Although I see a positive correlation between each of these SC measures, there are notable differences. In comparison to their high ranking by the Putnam SC index, for example, many of the Midwest states exhibit lower levels of civic SC and higher than average levels of charitable SC by my measures.

In Table 3.2, I report the pairwise correlation coefficients for further comparison of my measures with the HRM and Putnam SC measures. In the top of Table 3.2, the correlation coefficients are calculated for the complete sample of 50 states. To ensure that the large values of civic and charitable SC in Vermont and Utah, respectively, are not biasing the observed relationships between these measures, I report in the bottom half of Table 3.2 the correlation coefficients for the sample excluding these two states. The omission of these states changes the strength of these relationships only slightly—the HRM and Putnam measures remain positively correlated with both the civic and charitable SC measures. In this table, the charitable SC factor is more strongly correlated with both the HRM and Putnam SC measures than is the civic SC factor. This suggests that these two previous measures tapped more into the charitable and voluntary activity dimension of social capital than the civic and political engagement dimension. Overall, the civic SC and charitable SC measures correlate as expected with previously produced measures, but demonstrate notable variation in these relationships, which further supports the value of these new measures.

3.4.3 An Empirical Model of Unemployment Insurance

To test my hypotheses about the influence of SC on the unemployment insurance programs across the U.S. states, I use 8 separate indicators to measure state UI

efforts. Table 3.3 reports the summary statistics for these indicators and for every other variable used in my models. "Generosity" of a social insurance program can be conceived of in multiple dimensions (for some perspectives, see Barr 2001; Pallage, Scruggs, and Zimmermann 2013; Pfeifer 2012; Rehm 2011; Vroman 2007), and here I consider four sets of measures. First, I look at overall spending on UI programs by the states, in *UI benefits paid, in logged real 2007 dollars* and as *UI benefits paid, as a percent of GSP*. These two indicators represent the overall size or economic impact of a social insurance program. These measures exclude administration costs and other employment training programs, and include only the cash value of regular benefit payments. I also exclude extended and emergency funds provided by the federal government, which are granted in the case of high or extended unemployment in a state.

Measures of aggregated spending on social insurance programs, however, cannot distinguish comparative variation in program generosity in terms of eligibility, duration, or payment amount (Sjoberg, Palme, and Carroll 2010; Vroman and Brusentsev 2005). Accordingly, I use three additional sets of UI program indicators. First, I consider the coverage provided by a UI program. The *insured rate* measures the number of full time employees insured by the state unemployment insurance program as a percent of the labor force. Also, the *recipiency rate* represents the percent of the unemployed population receiving UI benefits. These two indicators capture the inclusiveness of a program. Next, I measure the generosity of the average benefit amount paid. The *average weekly benefit amount in real 2007 dollars* indicates the absolute generosity of a program, while the *replacement rate*, as the average ratio of individual benefits to prior wages, indicates the relative generosity of a program. Lastly, I consider the duration of eligibility for UI benefits with the *average duration of benefit payments for all recipients* in weeks and the *average duration of benefit payments*

for benefit exhaustees, also in weeks. All eight dependent variables are panel stationary according to the Hadri Lagrange multiplier stationarity test (Hadri 2000). Each of these variables are measured such that relatively greater values reflect greater generosity.

3.4.3.1 Economic Context

In addition to the social capital measures discussed above, I include a number of independent variables to account for a state's economic and political context. To represent macroeconomic insecurity, or risk, I use a measure of each state's average annual *unemployment rate*. To control for the financial wellbeing of a state's unemployment insurance program, I include the *reserve ratio*, which is the previous year-end ratio of UI trust fund balance to total monthly wages covered. This is a commonly used indicator of UI program solvency. Next, I include a number of other economic variables in my models. I control for the overall size of an economy using the *log of GSP, in millions of real 2007 dollars* and *log of labor force*. Lastly, I include a measure of economic growth as the *change in real personal income*, measured in per capita personal income in 2007 US dollars.[4]

3.4.3.2 Political Context

Relying on models from the comparative social welfare literature, I control for additional theoretically relevant factors. *Labor union strength* should influence the level of unemployment insurance coverage in a state, since unions have historically advocated more generous UI benefits. I define this measure as the ratio of non-agricultural workers covered by a collective bargaining agreement (Hirsch, MacPherson, and Vroman 2001). Second, I include *government liberalism* to account for the

[4]Each dependent variable measure, as well as all economic indicators, are available from the US Department of Labor (2016) at `http://www.oui.doleta.gov/unemploy/DataDownloads.asp`, or from the Bureau of Economic Analysis (2012) at `http://www.bea.gov/regional/`.

role of government ideology in determining policy priorities (Hibbs 1977; Hicks and Swank 1984), and measure it using a weighted average of the ideology scores for each chamber of the state legislature and the governor (Berry et al. 2007, 1998, 2010). More left-leaning governments are expected to place greater emphasize unemployment oriented public policies. This measure is constructed on a zero to 100 scale, with greater values representing a more leftist ideology. I lag both of these measures with the expectation that any union or government influence will take effect in the following period. Lastly, I control for the potential influence of *racial diversity* on social insurance policy outputs (Soss et al. 2001).

Table 3.3: Annual US State Summary Statistics 2001-2013

Variable	**Mean**	**S.D.**	**Min.**	**Max.**	**N**
UI Generosity Indicators					
UI Benefits Paid, log real $	12.2	1.2	9.2	15.4	650
UI Spending, % of GDP	0	0	0	0	650
Insured Employment Rate	72.8	4.3	60.5	90.5	650
Recipiency Rate	35.3	10.6	15.2	71	650
Avg. Weekly Benefit Amt, real $	4.9	0.2	4.4	5.3	650
Replacement Rate	36.4	5.9	21.7	57.7	650
Avg. Duration for Exhaustees, weeks	22.4	2.8	14.3	27.3	650
Avg. Duration, weeks	15.6	2.5	9.5	27.1	650
Social					
Civic & Political SC_{t-1}	0	1	−2.6	4.3	650
Charitable & Voluntary SC_{t-1}	0	1	−2.8	4.8	650
Ethnic Diversity	84.2	12.1	50.1	98.6	650
Economic					
Unemployment Rate	6.1	2.1	2.6	13.7	650
$\text{Reserve Ratio}_{t-1}$	1.1	1.1	−0.5	4.8	650
Log Labor force	14.4	1	12.5	16.7	650
Log of Real GSP	12	1	10	14.5	650
Δ Income Growth, real per cap.	3.2	2.9	−11.3	17.6	650
Political					
$\text{Government Liberalism}_{t-1}$	49.9	29.2	0	99.2	650
$\text{Union Strength}_{t-1}$	11.5	5.6	2.3	26.9	650

3.4.4 Modeling UI Coverage

The advantage of testing my hypotheses with panel data is the opportunity to model a dynamic process, because public policy measures, such as the dependent variables I use here, are determined by both short and long term processes. Because path dependent budgetary and administrative forces come to bear on policy outputs like spending or programmatic generosity measures, estimating a model of policy indicators across space and time invites biased inferences from autocorrelation and unit heterogeneity. Thus, I characterize this process as a function (Eq. 3.1) of a lagged dependent variable term $y_{j,t-1}$, a vector of independent variables $\mathbf{x}_{jt}$, and an error term u_{jt} composed of both an individual error term and random error component for both states and years.

$$\begin{aligned} y_{jt} &= \phi y_{j,t-1} + \alpha + \mathbf{x}_{jt}^{'}\boldsymbol{\beta} + u_{jt} \\ &\text{where } u_{jt} = v_{jt} + \epsilon_j + k_t \\ &j = 1, ..., N \text{ and } t = 1, ..., T \end{aligned} \tag{3.1}$$

Table 3.4: Linear Models of UI Generosity, 2001-2013

	Spending		*Coverage*		*Benefit Amount*		*Duration*	
	UI Spend % GSP	**UI Spend Log**	**Insured Rate**	**Recipiency Rate**	**Weekly Benefit**	**Replacement Rate**	**Exhaustee Duration**	**Average Duration**
Lag Dep. Var	0.500***	0.663***	0.946***	0.802***	0.965***	0.953***	0.900***	0.573***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Unemployment Rate	0.002	−0.011	0.042	−1.294***	−0.010***	−0.330***	−0.071**	0.149***
	(0.068)	(0.089)	(0.074)	(0.000)	(0.000)	(0.000)	(0.005)	(0.000)
Civic & Pol. SC_{t-1}	0.007***	0.043***	−0.050	0.849***	0.010***	0.267***	−0.022	0.369***
	(0.000)	(0.000)	(0.273)	(0.000)	(0.000)	(0.000)	(0.659)	(0.000)
Charit. & Vol. SC_{t-1}	0.002	−0.013	0.003	−0.323*	−0.003	−0.164**	−0.077	0.011
	(0.261)	(0.133)	(0.931)	(0.041)	(0.065)	(0.004)	(0.075)	(0.837)
Labor Force, log	0.068***	0.431***	−1.536***	3.649**	0.017	1.545***	−0.279	−0.786
	(0.000)	(0.000)	(0.000)	(0.002)	(0.117)	(0.000)	(0.382)	(0.051)
Gov. Liberalism$_{t-1}$	0.000**	0.001**	−0.004*	0.002	−0.000	−0.003	0.002	0.007***
	(0.009)	(0.007)	(0.011)	(0.691)	(0.414)	(0.137)	(0.179)	(0.000)
Union Strength$_{t-1}$	0.002***	0.013***	−0.013	0.193***	0.001	0.026*	0.016	0.024*
	(0.000)	(0.000)	(0.121)	(0.000)	(0.092)	(0.027)	(0.081)	(0.033)
Reserve Ratio$_{t-1}$	0.010***	0.071***	−0.109*	1.086***	0.009***	0.341***	0.037	0.101
	(0.000)	(0.000)	(0.015)	(0.000)	(0.000)	(0.000)	(0.427)	(0.088)
Real GSP, Log	−0.063***	−0.050	1.438***	−2.694*	−0.009	−1.344**	0.334	0.921*
	(0.000)	(0.408)	(0.000)	(0.019)	(0.385)	(0.002)	(0.286)	(0.019)
Δ*Income, real pc.*	−0.008***	−0.057***	0.185***	−0.633***	−0.006***	−0.262***	−0.077***	−0.202***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Ethnic Diversity	−0.000	−0.000	0.003	0.015	−0.000	−0.008	0.007	−0.010
	(0.193)	(0.605)	(0.383)	(0.301)	(0.067)	(0.114)	(0.099)	(0.056)
Constant	−0.154***	−1.442***	7.817***	−8.787*	0.122	−1.534	2.002	6.898***
	(0.000)	(0.000)	(0.000)	(0.046)	(0.063)	(0.336)	(0.101)	(0.000)
N	650	650	650	650	650	650	650	650

Note: Coefficient estimates from linear multi-level models with random effects by state and year. $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$, for a two tailed hypothesis test. For each dependent variable, a Hausman Specification test fails to reject H_0 that estimates from a random-effects model are consistent (Hausman 1978). Sample includes each of the 50 U.S. states from 2001-2013.

3.5 Results

Results from linear dynamic models of unemployment insurance generosity are reported in Table 3.4.[5] The four delineated columns in this table group the four sets of dependent variables that I use: spending, coverage, benefit amount, and duration of benefits. Looking across the eight models, a few interesting and theoretically consistent results are worthy of note. In my discussion of these results, I will first focus on the *short term* estimated effects of the independent variables, before discussing the implications of a lagged dependent variable specification for estimating long term effects.

First, in Table 3.4 union strength is generally a positive and often significant predictor of UI generosity, as would be expected. In representing and protecting the interests of workers, labor unions are expected to support more generous UI. Second, government liberalism is positively associated with spending overall, but whether this increase is explained by greater coverage, benefit generosity, or extended duration of benefits is not immediately evident, because the coefficient is not significant in those models. Lastly, as should be expected, a positive change in real per capita income is estimated to reduce indicators of generosity across the board (with the exception of the insured rate). If individual income buffers workers from the insecurity of unemployment insurance, then take-up or demand for UI should wane as income rises. Overall, these results conform to general expectations. I now turn to a discussion of my key independent variables and support for my hypotheses.

My first hypothesis (H_1) would be supported by positive estimated coefficients for the *civic and political SC* measure, because this would indicate that social insurance is more generous where SC coordinates through bureaucratic or policy institutions.

[5]Results from alternative model specifications, including a state-fixed effects model and estimation using with panel-corrected standard errors, are reported in the Appendix in Tables A.3-A.5.

Indeed, this SC measure is consistently associated with greater generosity at conventional levels of statistical significance. There are two exceptions to this result: the insured rate and the exhaustee duration. Civic and political SC is negatively, but insignificantly, associated with these two dependent variables. This offers promising support for my first hypothesis that UI programs are more comprehensive and generous in the presence of civic and political SC coordination.

Support for my second hypothesis (H_2) would be evidenced by negative coefficients on the *charitable and voluntary SC* variable, as this would indicate that SC coordinating directly within communities is associated with less generous UI program indicators. In these models, the influence of charitable and voluntary SC is not consistently significant, though the estimated effect is often negative. Where the effect is statistically significant at a conventional level, social capital operating through direct charitable or voluntary institutions is estimated to *reduce* the rate of unemployed receiving UI benefits (the recipiency rate), as well as the generosity of UI benefits as measured by the ratio of benefit amount to prior wages (the replacement rate). This evidence offers limited support for my second hypothesis— although charitable and voluntary SC is negatively associated with most UI generosity indicators, the estimated effect is not significant.

The substantive magnitude of these estimated effects however, are difficult to interpret without some additional arithmetic. To put these results in more substantive terms and to consider the overall impact of the key explanatory variables on UI generosity, Table 3.5 reports the estimated total or long-run effect of both SC measures. According to these results, a one standard deviation increase (one unit) in civic and political SC is associated with a long-run increase in the recipiency rate equal to about 4.3 points, an increase in the replacement rate of about 5.7 points, and an increase in the average duration of benefit receipt of 0.9 weeks. These effects

Table 3.5: Total, Long-Run Linear Effects of Social Capital on UI Generosity

	Long-Run Effect Estimates	
	Civic & Political SC	**Charitable & Vol SC**
UI Spending, % of GDP	0.000***	0.000
UI Benefits Paid, log real $	0.127***	−0.037
Insured Employment Rate	−0.926	0.062
Recipiency Rate	4.277***	−1.628*
Avg. Weekly Benefit Amt, log real $	0.275**	−0.079
Replacement Rate	5.711**	−3.495*
Avg. Duration for Exhaustees, weeks	−0.218	−0.771
Avg. Duration, weeks	0.864***	0.025

Note: Table reports estimated total effects of a one standard deviation increase in SC on UI generosity from models in Table 3.4 including a lagged dependent variable parameter, $\hat{\phi}$, equal to $LTE_X = \frac{\hat{\beta}}{1-\hat{\phi}}$, with the immediate or short run effect being equal to $\hat{\beta}$ (De Boef and Keele 2008). $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$ for Wald-type test of $H_0 : LTE_X = 0$.

are all statistically significant. On the other hand, a one standard deviation increase in charitable and voluntary SC measure is significantly associated with a 1.6 point decline in the recipiency rate, and a 3.5 point drop in the replacement rate.

I turn now to Table 3.6 to test my next set of hypotheses. First, hypothesis H_{1b} states that civic and political social capital will have a greater influence on policy outputs in the context of greater economic insecurity, and hypothesis H_{2b} states that the influence charitable and voluntary social capital will not be conditional on economic context. The organization of this table is similar to Table 3.4, except that I have now included a multiplicative interaction term for each social capital measure with the average annual state unemployment rate to test this conditional hypotheses. A cursory look at the coefficients in this table suggests that some of the more general results seen in Table 3.4 hold in these interactive models. However, the inclusion of interaction terms complicates interpretation, so I turn to a graphical representation for more valid inference (Brambor, Clark, and Golder 2005).

Table 3.6: Interactive Models of UI Generosity, 2001-2013

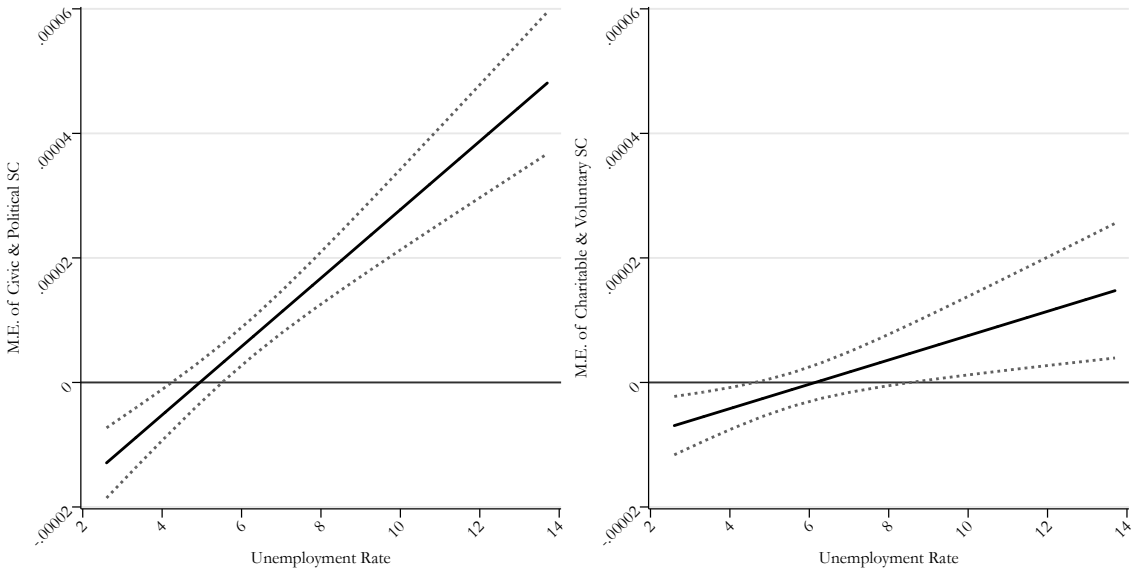
	Spending		*Coverage*		*Benefit Amount*		*Duration*	
	UI Spend % GSP	**UI Spend Log**	**Insured Rate**	**Recipiency Rate**	**Weekly Benefit**	**Replacement Rate**	**Exhaustee Duration**	**Average Duration**
Lag Dep. Var	0.535***	0.688***	0.946***	0.816***	0.967***	0.953***	0.901***	0.589***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Unemployment Rate	0.001	−0.015**	0.034	−1.382	−0.010***	−0.349	−0.078***	0.123***
	(0.373)	(0.024)	(0.162)	(0.000)	(0.000)	(0.000)	(0.006)	(0.001)
Civic & Pol. SC$_{t-1}$	−0.027***	−0.082**	0.268*	−1.871***	−0.012*	−0.329	−0.066	−0.183
	(0.000)	(0.004)	(0.045)	(0.001)	(0.013)	(0.090)	(0.657)	(0.325)
C&P SC × *Unemp*$_{t-1}$	0.005***	0.020***	−0.049*	0.455***	0.004***	0.099**	0.007	0.091**
	(0.000)	(0.000)	(0.018)	(0.000)	(0.000)	(0.001)	(0.754)	(0.002)
Charit. & Vol. SC$_{t-1}$	−0.012**	−0.066**	0.293*	−0.127	−0.002	−0.135	−0.082	0.007
	(0.002)	(0.006)	(0.011)	(0.786)	(0.637)	(0.424)	(0.527)	(0.964)
C&V SC × *Unemp.*$_{t-1}$	0.002**	0.008	−0.048*	−0.067	−0.000	−0.012	0.000	−0.005
	(0.003)	(0.055)	(0.013)	(0.386)	(0.598)	(0.675)	(0.984)	(0.840)
Labor Force, log	0.069***	0.430***	−1.561***	3.954***	0.019	1.604***	−0.274	−0.682
	(0.000)	(0.000)	(0.000)	(0.001)	(0.069)	(0.000)	(0.392)	(0.089)
Gov. Liberalism$_{t-1}$	0.000	0.001	−0.003*	−0.002	−0.000	−0.004	0.002	0.006**
	(0.173)	(0.071)	(0.039)	(0.739)	(0.172)	(0.066)	(0.200)	(0.002)
Union Strength$_{t-1}$	0.002***	0.012***	−0.010	0.186***	0.001	0.027*	0.016	0.023*
	(0.000)	(0.000)	(0.200)	(0.000)	(0.081)	(0.021)	(0.083)	(0.037)
Reserve Ratio$_{t-1}$	0.009***	0.069***	−0.097*	1.065***	0.009***	0.336***	0.037	0.102
	(0.000)	(0.000)	(0.032)	(0.000)	(0.000)	(0.000)	(0.442)	(0.089)
Real GSP, Log	−0.065***	−0.075	1.485***	−2.949**	−0.011	−1.397**	0.329	0.824*
	(0.000)	(0.206)	(0.000)	(0.009)	(0.275)	(0.001)	(0.295)	(0.036)
Δ*Income, real pc.*	−0.008***	−0.055***	0.177***	−0.585***	−0.005***	−0.253***	−0.076***	−0.198***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Ethnic Diversity	−0.000	−0.000	0.005	0.023	−0.000	−0.006	0.007	−0.007
	(0.234)	(0.641)	(0.245)	(0.121)	(0.186)	(0.219)	(0.098)	(0.146)
Constant	−0.149***	−1.385***	7.480***	−10.921*	0.100	−1.864	1.972	6.240***
	(0.000)	(0.000)	(0.000)	(0.012)	(0.125)	(0.242)	(0.109)	(0.000)
N	650	650	650	650	650	650	650	650

Note: Coefficient estimates from linear multi-level models with random effects by state and year. $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$, for a two tailed hypothesis test. For each dependent variable, a Hausman Specification test fails to reject H_0 that estimates from a random-effects model are consistent (Hausman 1978). Sample includes each of the 50 U.S. states from 2001-2013.

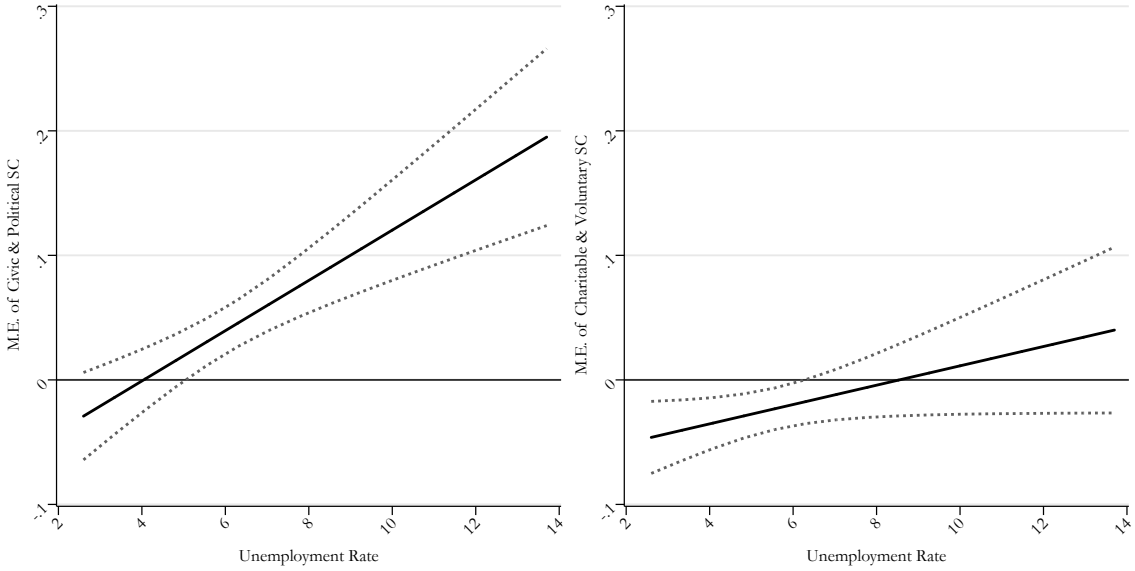
In Figures 3.5-3.8, the predicted marginal effects of social capital are shown along the vertical axis of each subfigure, as indicated. Each set of four subfigures corresponds to the four types of UI policy indicator (spending, coverage, generosity, and duration) that I use as dependent variables. The horizontal axes represent the full in-sample range of the unemployment rate. Each figure represents the marginal effect of a social capital type, as indicated, and 95% confidence intervals estimated under defined conditions based on a two-tailed hypothesis test.[6] In the Appendix, Figures A.1-A.4 show the inverse of these marginal effects by graphically reporting the predicted marginal effects of unemployment across levels of each social capital measure, respectively. In those figures, the scenarios are distinguished by holding either social capital measure constant at its mean plus or minus two standard deviations, which will be indicated by each legend.

In the figures here, statistical significance can be interpreted in two ways. First, the significance of the horizontal axis variable can be inferred if, for any value of the vertical axis, the confidence intervals for a single conditional scenario do not overlap. In other words, the variable is significant if the confidence interval for a conditional scenario increases or decreases with the horizontal axis so as to have no overlapping vertical axis values. Second, the significance of the variable distinguishing each pair of lines is inferred where the two separate sets of confidence intervals do not overlap. In other words, for any value of the horizontal axis, if the two sets of confidence intervals in each figure do not overlap, the variable labeled in the legend may be interpreted as having a significant effect, at that specific value of the horizontal axis. It is worth noting that these figures represent *only the short run* predicted effects,

[6]These conditional marginal effects are predicted using the `margins` suite of commands in Stata 12. In each scenario, key independent variables are either held constant at their sample mean or vary as indicated in each figure. All control variables are similarly held constant at their sample means, but inferences do not change if their values are allowed to vary as observed.



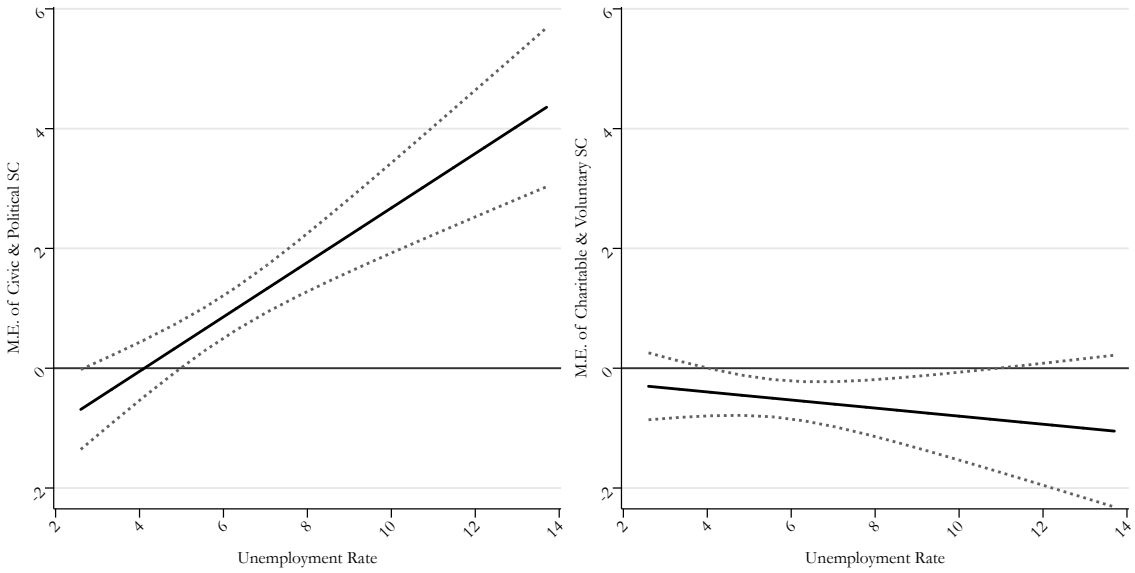
(a) UI Benefit Spending, % of GSP



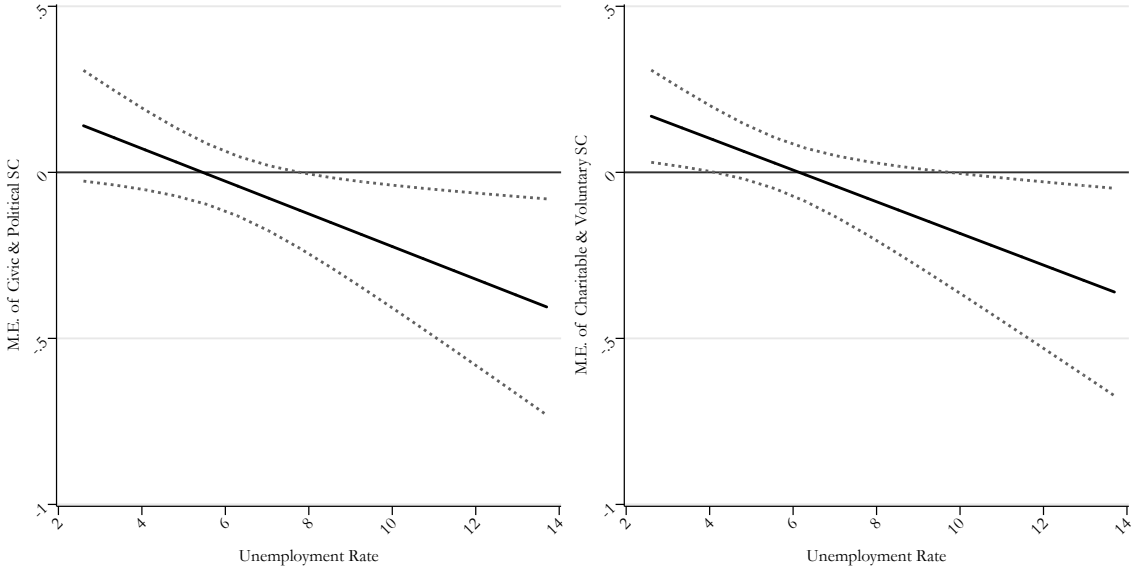
(b) UI Benefit Spending, Log Real $

Figure 3.5: Short Run Marginal Effects of Unemployment on UI Benefit Spending

Note: Each graph reports 95% confidence intervals for the indicated marginal effect estimates obtained using coefficients from models in Table 3.6 while holding all variables not labeled in the figure constant at their sample mean, including the lagged dependent variable term. "High" and "Low" values are defined by the variable sample mean plus or minus 2 standard deviations, respectively.



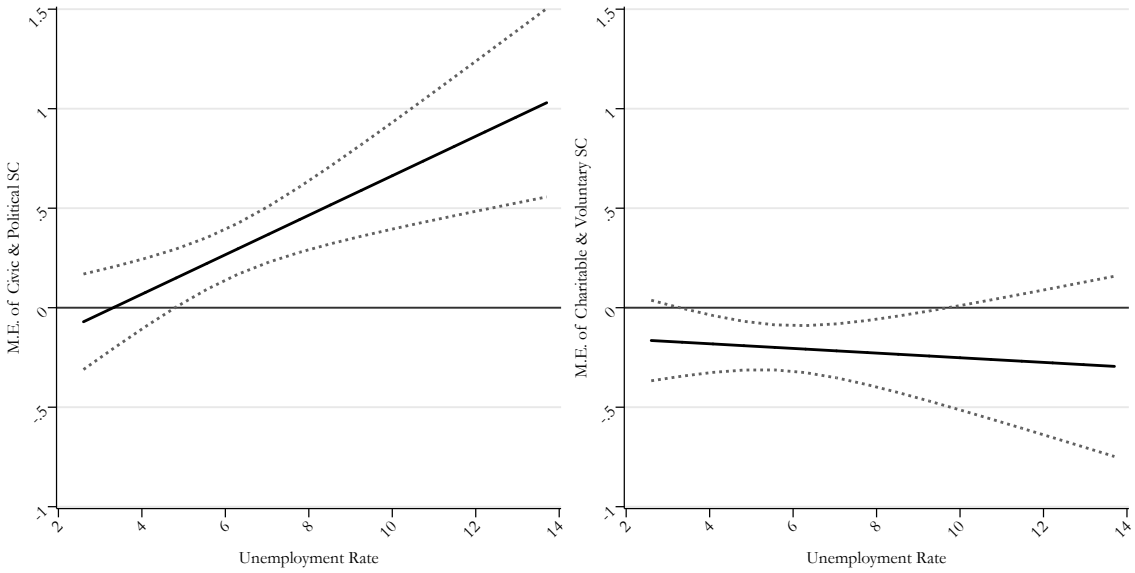
(a) Recipiency Rate



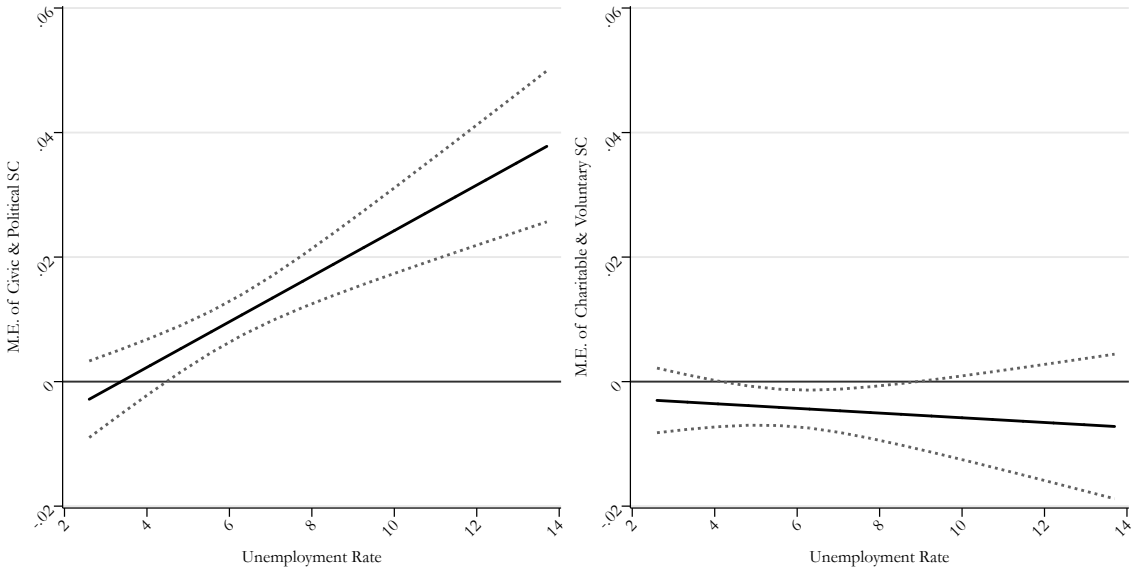
(b) Insurance Rate

Figure 3.6: Short Run Marginal Effects of Social Capital on UI Coverage

Note: Each graph reports 95% confidence intervals for the indicated marginal effect estimates obtained using coefficients from models in Table 3.6 while holding all variables not labeled in the figure constant at their sample mean, including the lagged dependent variable term. "High" and "Low" values are defined by the variable sample mean plus or minus 2 standard deviations, respectively.



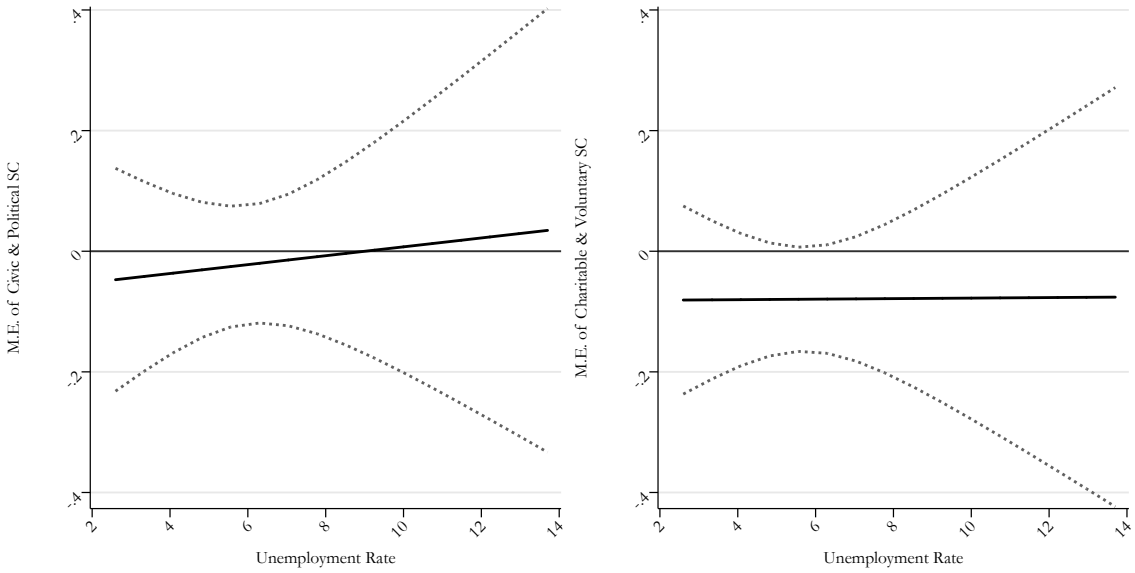
(a) Replacement Rate



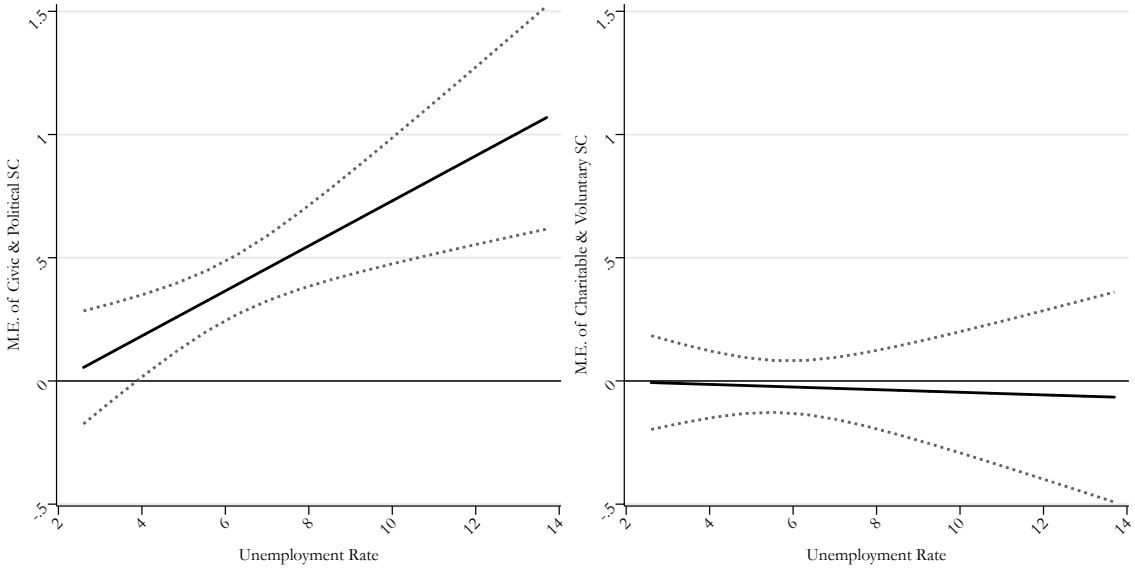
(b) Average Benefit Amount, Real Log

Figure 3.7: Short Run Marginal Effects of Social Capital on UI Weekly Benefit Amount

Note: Each graph reports 95% confidence intervals for the indicated marginal effect estimates obtained using coefficients from models in Table 3.6 while holding all variables not labeled in the figure constant at their sample mean, including the lagged dependent variable term. "High" and "Low" values are defined by the variable sample mean plus or minus 2 standard deviations, respectively.



(a) Duration for Exhaustees



(b) Average Duration for All Unemployed

Figure 3.8: Short Run Marginal Effects of Social Capital on UI Benefit Duration, in Weeks

Note: Each graph reports 95% confidence intervals for the indicated marginal effect estimates obtained using coefficients from models in Table 3.6 while holding all variables not labeled in the figure constant at their sample mean, including the lagged dependent variable term. "High" and "Low" values are defined by the variable sample mean plus or minus 2 standard deviations, respectively.

and do not represent the total effect over time.

Two important results stand out in Figures 3.5-3.8. First, by looking at each of the left-hand subfigures it is evident that with the exception of the insured rate, the estimated marginal effect of civic and political social capital is significantly positive and the magnitude of this effect is larger where unemployment is higher. The upward sloping line indicates that the marginal effect is greater at higher levels of the horizontal axis variable, the unemployment rate, and this effect is persistently significant. This suggests that the mobilizing influence of social capital on social insurance is greater in contexts of macroeconomic insecurity, and it supports my hypothesis 1_b.

The second finding of note from these figures is seen in the right-hand side of each subfigure. The marginal effect of charitable and voluntary social capital on unemployment insurance program outputs is often negative, it is not consistently significant (where the 95% confidence intervals overlap with zero), and neither is the effect consistently conditional on the unemployment rate. Social capital may coordinate substitute informal institutions for social insurance programs, and thereby reduce the de facto generosity, size, or comprehensiveness of these public policy outputs. This effect does not appear to be significantly conditional on the level of economic insecurity in the broader environment. Hypothesis 2_b is therefore supported by these findings— the evidence points to an unconditional and dampening effect of charitable and voluntary social capital on unemployment insurance coverage. This suggests that SC may provide functional substitutes for social insurance, and that individuals in communities with greater charitable and voluntary SC may turn not to public programs for assistance in times of need, but may find their needs met through non-state coordination.

3.6 Findings & Discussion

I have argued that in pluralist or liberal market economies, where there are few or weak formal institutions coordinating business, labor, and state interests, that there exists an important role for informal social institutions of cooperation. It is in these political-economic contexts that social capital should be most likely to exert influence on labor market and public policy outcomes. When theorized as a set of informal institutions that maintain and incentivize cooperation between actors, the functions of social capital in a capitalist market economy can be viewed through the lens of political economy theory. Public programs buffering individuals against risks inherent in modern labor markets, including unemployment insurance, developed over time as interested actors negotiated their design out of self-interest. In contexts facilitating greater cooperation, the coordination was less costly and states developed comprehensive and inclusive institutions of social insurance. I have argued that, given a state's contemporary arrangement of social policies and formal coordinating institutions, variation in program generosity and responsiveness to collective problems is associated with variation in the informal rules governing coordination—social capital.

More specifically, I have articulated a theory with greater attention to the mechanisms of informal coordination than previous scholarly work. Informal institutions can interact with state political and civic organizations, and in such contexts will prompt greater responsiveness of public programs to common needs. This function of SC lowers the transaction cost of transferring information to improve public policy design and implementation, thereby increasing the sensitivity of public social insurance programs to macroeconomic insecurity. Where informal SC mobilizes organization through direct charitable and voluntary means, without formal interaction with

state institutions, public social insurance programs will be less relevant in buffering individuals from insecurity. In these contexts, actors may coordinate informal risk-sharing arrangements that rival state programs, or the more efficient transfer of information to improve labor market outcomes may reduce a need/demand for short-term assistance. I have tested the implications of this theory in the US states from 2001-2013 using novel data and a cross-sectional time-series research design.

If informal social institutions coordinate actors in market economies to facilitate the provision of social insurance, evidence would be seen in a positive and significant association between SC indicators and measures of unemployment insurance generosity, coverage, and/or duration. However, as I have argued, only when these social norms and expectations motivate coordination through formal state institutions will they affect policy outputs. Where coordination is motivated independently or in parallel to political and civic institutions, there will not be a significant positive association between SC and policy outputs. The results I offer here support these expectations. On the one hand, I have shown that not only do unemployment insurance programs apparently offer benefits that are more generous, comprehensive, and longer in duration in contexts of stronger political social capital, but they are also more sensitive to macroeconomic insecurity. On the other hand, I have also shown that unemployment insurance programs are largely unaffected by the context of charitable and voluntary social capital, and it does not shape the responsiveness of programmatic indicators to macro-unemployment.

4. SOMETIMES MISTAKES HAPPEN: A THEORY OF ELECTORAL CYCLES IN ADMINISTRATIVE PERFORMANCE

The question of whether politicians seek to cultivate popular goodwill and support among voters by strategically timing the distribution of public budget or policy goods has fascinated political science for a generation. Preceding an election, incumbent politicians are expected to provide economic goods to safeguard and grow their support among voters, thereby improving chances for reelection. Whether to deliver on prior electoral promises or to more generally demonstrate competence and effectiveness in office, politicians may establish political budget or policy cycles. What has received less attention by political science research, however, are the mechanisms through which budget, policy, or broader economic outcomes are delivered to potential voters. Politicians have many tools at their disposal to strategically foster improved public policy and service outputs, some more costly than others. Beyond budget or expenditure manipulation, one of the tools available is the quality of public service provision. When politicians face certain political or economic constraints, they should be more likely to turn to bureaucratic public goods than expenditures to shore up electoral support.

In this chapter, I contribute to the literature on political budget and policy cycles by theorizing on the mechanisms through which policy goods are delivered to voters, and by positing a theory of when politicians are more likely to prefer expenditure-based or bureaucratic-administrative public goods. Because politicians rely on administrative organizations to implement policy and deliver public services to voters, they have an opportunity to manipulate various bureaucratic levers to realize a desired distribution of goods or services. The distribution of social policy benefits to

claimants should be specifically targeted by officials as a vehicle to directly deliver these strategic policy goods. Increased generosity of benefit payments and improved bureaucratic performance in accuracy of decision making are *administrative goods* which can be subject to political influence and are directly received by potential voters. Administrative goods also offer politicians some advantages over the traditionally studied policy manipulations: improved administrative efficiency demands few if any fiscal resources, and applying pressure to public agencies may require less political coordination than budget maneuvering.

A second important contribution made in this chapter is the articulation of a theory of political control that gives proper attention to electoral cycles. The study of public administration has long searched for evidence of consistent political control of bureaucratic outputs, with some notable success. There should be little reason, however, to expect influence of political actors on bureaucratic organizations or performance in all political environments. Rather, political manipulation of bureaucracy should be most likely when elected officials face an acute incentive to deliver better, faster, more generous public services: when an election looms near or when fiscal constraints are great. Despite scholarly acceptance of a political bureaucracy, theory of an electoral cycle in administration has yet to be offered. In this chapter, I consider theory of political control through the lens of a political business cycle to generate a theory of political influence on bureaucratic performance sensitive to electoral dynamics.

To test the implications of my theory, I turn to the U.S. states to examine variation in the subnational implementation of unemployment insurance. The American unemployment insurance system allows substantial autonomy for states to determine benefit and eligibility rules, as well as procedures for the delivery of benefit payments. In other words, while programs must conform and comply with minimum standards

set by the federal government, the administration of unemployment insurance (UI) is decentralized to state governments. Such delegation provides local politicians the opportunity to influence bureaucratic operations at the state and local level. These public agencies are required to report in detail on the service performance both in the accuracy of payment decisions and the timeliness of payments issued, as well as the generosity of payments made. Exploiting this resource, I offer a novel test for political business cycles in bureaucratic performance, thereby offering a peek inside the black box of political control.

4.1 Election Cycles and Public Goods

Rational explanations of political behavior have come to identify personal re-election prospects as the key motivation driving elected officials. Self-interested politicians are argued to behave so as to maximize their support among more or less naive and retrospective voters (Downs 1957). Governments, being composed of these interests, are theorized as collectivities employing rational and adaptive strategies. To shape voters' preferences and solidify sufficient support for reelection, these rational government and political actors will use the tools available to them, including public policies. There are innumerable policy instruments that may be exploited for electoral gain, but it is economic policy that may be especially targeted for it's potentially broad reach, high salience, and substantive impact. "It is obvious enough: incumbent politicians desire re-election and they believe that a pre-election economy will help achieve it" (Tufte 1978, 5). Reflecting this expectation, the early focus of the rational choice approach was on the macroeconomic correlates of electoral cycles (Akerman 1947; Fair 1975; Kalecki 1943; Kramer 1971; Lau and Frey 1971). However, despite the intuitive appeal of this hypothesis, consistent empirical support from decades of research remains ambiguous.

Bringing notable attention this line of research, Nordhaus (1975) and Lindbeck (1976) contributed to the "political business cycle" model of political exploitation of the Phillips curve to extract electoral benefits from short term unemployment relief through inflationary policies. Only after an election are the consequences of these public policies realized in high inflation, requiring reactionary austerity efforts and thereby provoking unemployment. Periods of macroeconomic expansion should precede elections, and recessionary periods should follow. Rivaling traditional theory of economic policy founded on principles of social welfare maximization, these works brought to the fore of political science a theory of government policy-making as a function of individual electoral self-interest, as well as "ideological satisfaction" (Dubois 2016; Lau and Frey 1971). Recognizing that voters, and therefore politicians, are heterogeneous in their preferences for macroeconomic outcomes (Hibbs 1977), theories also came to incorporate partisan or ideological preferences into cyclical models of political control of the economy (Alesina 1987; Alesina and Sachs 1988; MacRae 1977; Tufte 1978).

However, the expectation undergirding these early works that governments manipulate unemployment and inflation weakens when voters are granted rational foresight. Rather than short term tweaking of the macroeconomy, this line of theory evolved into a model of the "political budget cycle," or "PBC" (Rogoff 1987), with an emphasis on rational partisan differences in policy priorities (Alesina 1987). The game governments play becomes one of budget manipulation under the condition of asymmetric information. Rational but incompletely informed voters reward the *appearance* of competence as signaled by efficient and/or effective provision of public goods and services, like employment (Persson and Tabellini 1990; Rogoff and Sibert 1988), with a bias towards observable and immediate consumption rather than investment (Rogoff 1990). Expansionary spending intended to signal or stimulate

real economic growth should precede elections, with an associated impact on budget deficits or payroll taxes realized only after an election.

Emphasizing less the real macroeconomic effects of monetary policy, scholars thus came to study the timing and targeting of public spending or transfers as evidence of electorally motivated policy manipulation. Any short term bump in transfer payments aligning with the election cycle reflects the ability of the executive (president) to "mobilize the bureaucracy and the Congress to give real disposable income an extra stimulative kick via transfer payments right before an election" (Tufte 1978, 43). Targeted redistributional payments through Social Security Act programs including unemployment, retirement, disability, or health insurance, or veterans benefits, are especially attractive for their immediate and visible impact on real disposable income (Castro and Martins 2016; Keech and Pak 1989; Schultz 1995; Tufte 1978). The real impact of these strategies on long term welfare, however, may be ambiguous after allowing voters to observe the real economic consequences of budgetary manipulation, because more competent politicians can exploit additional policy instruments varying in visibility (Lohmann 1998).

An alternative rationale for PBCs in fiscal policy is the opportunity for political credit claiming. Rather than seeking to signal a robust macroeconomy, politicians may strategically time (and target) public goods and services to optimize visibility and credit claiming to improve reelection prospects. Even in the absence of real or perceived macroeconomic impacts, incumbents can time announcements of public goods to maximize advantageous political attention— to claim credit (Mayer 1995). With this logic, PBCs are not the consequence of information asymmetry and the capability of governments to distort perceptions of the economy, but rather, they are the consequence of politicians directly targeting benefits to voters, potentially with special attention to critical or marginal voters. This clientelistic PBC is seen

in health personnel spending in Italy, where and PBCs are stronger in less developed regions where voters have fewer alternatives to public employment (Stolfi and Hallerberg 2015). PBCs are seen in legislative appropriations, where back-loading federal awards in a term allows senators to claim credit just before reelection (Shepsle et al. 2009), or new awards early in a term may help shore up longer term support for more competitive Congressional seats (Bickers and Stein 1996). Electoral cycles are also seen in support to the agriculture sector, especially by right-wing governments (Klomp and De Haan 2013*a*), and in dips in four year university tuition rates (Reynolds 2014), both affecting targeted constituents.

Overall, the evidence is mixed for PBCs in a variety of fiscal policy outcomes across developed democracies. Some have identified support (Baleiras and da Silva Costa 2004; Blais and Nadeau 1992; Blomberg and Hess 2003; Brender and Drazen 2005; Efthyvoulou 2012; Franklin, Richey, and Yonk 2013; Guillamon, Bastida, and Benito 2013; Klomp and de Haan 2013*b*; Rosenberg 1992; Shi and Svensson 2006; Veiga and Veiga 2007), yet others have found less systematic evidence (Alesina, Cohen, and Roubini 1993; Andrikopoulos, Loizides, and Prodromidis 2004; Bee and Moulton 2015). Research has also identified diverse and important conditional relationships (de Haan and Klomp 2013). For example, the magnitude of PBC manipulation may be conditional on electoral risk or competition (Aidt and Albornoz 2011; Hanusch and Magleby 2014; Schultz 1995). Institutional context also affects PBCs: fiscal transparency dampens PBCs (Alt and Lassen 2006), as do stricter fiscal rules (Bastida, Beyaert, and Benito 2013; Klein and Sakurai 2015; Rose 2006), institutionalized separation of powers (Saporiti and Streb 2008), and term limits (Besley and Coate 1995). On the other hand, PBCs are more likely or are stronger in majoritarian electoral systems (Klomp and De Haan 2013*a*), systems with greater fiscal decentralization (Gonzalez, Hindriks, and Porteiro 2013), weaker political parties

(Shelton 2014), and multiparty systems (Potrafke 2012).

Scholars have also looked for evidence of opportunistic cycles in an increasing variety of policy tools, in addition to direct transfers or aggregate budget allocations. For example, opportunistic fiscal manipulation is seen in direct public employment (Bee and Moulton 2015; Dahlberg and Mork 2011; Stolfi and Hallerberg 2015) and in labor market policies aimed to reduce unemployment (Mechtel and Potrafke 2013). Nelson (2000) also found no evidence of tax cuts at the US state-level preceding an election, but rather found tax *increases* to fall just after elections. Rather than distributing public benefits, this suggests that state politicians abstain from increasing the tax burden in the lead up to an election. Furthermore, cross-national evidence suggests that election-motivated fiscal policies significantly increase electoral support for parties or incumbents in government (Aidt and Albornoz 2011; Balaguer-Coll et al. 2015; Klomp and de Haan 2013*b*), pointing to real payoffs for incumbent governments.

An enduring oversight within this literature, however, has been a lack of attention paid to the mechanisms underlying these observed BPCs. *How* do elected politicians bring about the opportunistic distribution of goods and services? While studies of policy and budgetary outputs have occupied scholars in this literature, the potential for administrative services to reflect electoral cycles has been overlooked. This is not a wholly novel critique; as Mayer (1995, 167) writes, "Studies that find electoral cycles in economic policy should be able to explain how the incumbents control the relevant policy tools, who controls the levers, and how decisions are implemented."

Recognizing the importance of administrative mechanisms underlying PBCs, Tufte (1978) argues that in the ramp up to an election, politicians will "prod" government agencies in their preferred direction. With respect to transfer agencies specifically, they should "accelerate processing of new beneficiary applications, the payment of retroactive benefits, and the initiation of new programs" (Tufte 1978, 48). The few

studies that do broach this question by looking to bureaucratic outputs have provided suggestive evidence, but they have not gone far enough identify the administrative mechanisms at work.

Mayer's (1995) study of civilian contract awards and state found no evidence of cycles in spending, but found that federal contract awards accelerated and deobligations were reduced immediately before presidential elections. Similarly, Corder (1998) finds that the federal Small Business Administration issues more credit subsidies prior to presidential, but not mid-term, elections. With perhaps greater insight into the method of political influence, Gordon (2011) shows that potentially vulnerable Republican congressional districts received unusually large new contracts issued by the General Services Administration. This pattern of contracting followed a presentation in 2006 to the department by a white house staffer, who explicitly identified potentially at-risk districts. All of these studies, however, look only to federal contracting, which is a relatively centralized bureaucratic operation. Further, when economic context may make spending politically unpalatable, politicians may lean on other bureaucratic outputs, such as quality of service or improved efficiency.

The sizable literature on electoral cycles in policy making, and the inconsistency in conclusions drawn, has led political science towards a consideration of the variety of policy tools available to politicians. From an initial focus on electoral cycles in real macroeconomic outcomes via manipulation of the Philips curve, to the study of fiscal policy levers having cyclical budget and deficit consequences, the attention of research on political cycles has now broadened to public goods and services more generally. This literature, however, has not yet explored the possible effects of political opportunism on public administration, and specifically on bureaucratic performance. On the other hand, research cross-cutting public administration and political science has long studied the institutional and political determinants of political control over

bureaucracy has also stopped short by failing to account for the cyclical political opportunism inherent in democratic systems. In the following section, I review the extant literature on political control of bureaucracy broadly, before synthesizing these two orthogonal theoretical traditions into a theory of *political administration cycles*.

4.2 Political Control of Bureaucracy

Whether, or to what extent, elected officials have sway over the actions of individual bureaucrats is a perennial question across political science and public administration. An influential literature has demonstrated persistent covariation between bureaucratic outputs and political variables, yet uncertainty remains as important conceptual issues are overlooked (Meier and O'Toole 2006*b*) and technical issues dominate contemporary debate (Moe 2012). Beginning with an initial focus on public choice conceptions of an intransigent bureaucracy, this literature soon evolved into theories of rational institutional design as a method of control. Short on predictive power, this institutional approach gave way to a focus on strategic interaction and an attempt to build more general (comparative) theories of delegation and control, and also to move beyond the traditional preoccupation with the American case. As seminal works have shown, bureaucratic values are resilient in determining organizational behavior (Wilson 1989), thus the question now facing political science regards the contexts and institutions in which politicians are more likely, more interested, or more capable of shaping bureaucratic behavior.

4.2.1 An Agency Perspective

In the public choice tradition, principal-agent models are the workhorse of theories on the relationship of control and influence between bureaucracy and elected officials. In short, (political) principals expect contracted agents (bureaucrats) to

exploit information asymmetries to shirk from their delegated tasks, so these principals (legislatures and executives) thus seek to control the agents' behavior through a variety of institutions. Bureaucrats as "agents" in this perspective, are both capable and interested in shifting policy outcomes away from original and current political preferences (Downs 1967; Dunleavy 1991; Niskanen 1971; Tullock 1965). These arguments leave open the door to theories of political influence on bureaucracy explained by rational expectations in multiple actor relationships, in the context of asymmetric information (e.g., Banks and Weingast 1992; Bendor et al. 1987). In response, political principals design ex ante the structure and rules of policy administration to minimize "bureaucratic drift" (McCubbins, Noll, and Weingast 1989; Moe 1990), as well as ex post oversight (Moe 1989; Rosenbloom 2000; Wood and Waterman 1994), and they strategically determine the scope of discretion delegated (Epstein and O'Halloran 1994).

Further complicating the channels of political influence on bureaucratic organizations are institutions of separated powers across levels of government, just as Madison (1788) would have wanted. Decentralized or federal systems provide the opportunity for both national centralized and local decentralized actors or interests to seek influence over bureaucratic functions. Yet, the weight of research on political control has taken place at the national level, and more often than not in the US context, to explain the relative influence of national-level principals on federal bureaucracies. The institutional reality, however, is that most bureaucratic organizations in the US are not federal, and remain accountable (and responsive) to political interests nested in multiple levels of government (Gormley 1986; Liu et al. 2010; Scholz and Wood 1998; Scholz and Wang 2006; Scholz, Twombly, and Headrick 1991; Whitford 2007; Wood 1991). Government agencies do not operate within clearly delineated hierarchies of control, they experience competing pressures for different goals from

the multiple principals and interested groups. Where multiple principals hold authority over a bureaucratic agency, each will seek influence on agency functions out of rational self-interest, and these political interests often, if not always, diverge to some degree.

The outcome of policy goal conflict will be partly determined by the level of discretion granted to bureaucratic agencies, which is a function of multiple factors. First, whether or not disagreement between political principals grants agencies more or less discretion is unclear. Models of delegation, and their empirical support, contradict one another on this point. Some find that political disagreement or divided government *increases* agent discretion (Ferejohn and Weingast 1992; Hammond and Knott 1996; Huber and Shipan 2002), and others predict (and find) the opposite (Bawn 1997; Epstein and O'Halloran 1994, 1999*b*; Huber, Shipan, and Pfahler 2001; McCubbins, Noll, and Weingast 1989; Volden 2002; Yackee and Yackee 2009). As Oosterwaal, Payne, and Torenvlied (2012) argue, this theoretical ambiguity results from the coincidence of multiple political incentives: compromise between principals, efficient agency choice (with regard to information or risk), or the maintenance of coalition support. In other words, whether disagreement among principals is expected to grant politicians greater leverage over agents depends on context and other political factors.

The degree of political control will also be conditioned by the relative salience and complexity of a policy (Carpenter 2002; Gormley 1986; Ringquist 1995; Ringquist, Worsham, and Eisner 2003). Schmidt (2003) proposes that national political authorities have less control over local administration of policies on complex issues for which field decisions are justifiable. Thus, control efforts are more likely when policies are especially salient, and therefore of greater political value to elected officials.

In focusing on the relationship between agents and principals, these studies point

to strategic institutional design and divergence in preferences between political actors as the key limitations on delegation and political control. However, The outputs of bureaucratic organizations are determined not only by top-down political influence, but also by local and individual level values and preferences. A contemporary shift towards theory of bureaucracy at the individual "street-level" has brought to light the many organizational and personal obstacles in "controlling" administrative outputs.

4.2.2 Bringing the Bureaucrat Back In

Executive and legislative controls should be understood as a dynamic tug-of-war in which control by one actor is conditional on the action of another as well as the history of agency response (Whitford 2005). However, bureaucratic values are also critical determinants of administrative outputs; indeed in some cases agency values matter more than political overseers (Meier and O'Toole 2006*b*; Schmidt 2003). Although political control may be less likely to alter agency goals, values, or the general direction of policy, it may still be effective in augmenting outputs (EPA enforcement activity, in this case, Ringquist 1995). A reluctance to alter values in the face of top-down organizational reform is also seen in welfare agencies (Fording, Soss, and Schram 2007; Riccucci 2005). More simply, bureaucrats exercise discretion in their everyday tasks and individual workers choose how to use it and when to submit to external pressures (Tummers and Bekkers 2014), and direct efforts to alter individual bureaucratic goals or values rarely have uniform or substantial effects (Sandfort 2000; **?**).

The external political environment will also affect political control and bureaucratic outputs; local social and political forces shape policy outputs by local agencies (Fording, Soss, and Schram 2007; Liu et al. 2010; Scholz and Wang 2006; Scholz, Twombly, and Headrick 1991; Soss et al. 2001). In addition to local political in-

fluences, the local institutional arrangements of state legislatures can make control more or less costly (Gerber, Maestas, and Dometrius 2005). In studying the responsiveness of state agencies to various federal and state principals and interests, Scholz and Wei (1986) find that agencies may respond with symbolic or instrumental policy changes depending on the principal exerting pressure. State agencies are rational agents seeking to maintain the support of "critical actors" and institutions responsible for budget and statutory control (Scholz and Wei 1986). This extant literature concedes that the preferences of both state and national politicos contribute to agency outputs, and that bureaucracies should be understood as rational actors responsive to those institutions with budgetary and statutory power.

Most empirical tests of political control utilize data from regulatory agencies (for example, Carpenter 2002; Gerber and Teske 2000; Ringquist 1995; Ringquist, Worsham, and Eisner 2003; Scholz and Wei 1986; Scholz, Twombly, and Headrick 1991; Spence 1999; Whitford 2005, 2007; Wood 1991; Wood and Waterman 1994; Yackee and Yackee 2009); only a few studies analyze political control of other policy types (see Huber, Shipan, and Pfahler 2001; Volden 2002). It is not immediately clear how well findings from studies of federal regulatory agencies may be generalized to other policy areas such as social welfare. Meier and O'Toole (2006*a*) suggest that regulatory agencies may be more amenable to political influence than other agency types on the basis of three dimensions: political support, expertise, and cohesion. Being "craft agencies," regulatory agencies produce relatively less observable outputs, which allow the opportunity for comparatively stronger influence from outside the organization (Wilson 1990). In contrast, bureaucracies producing more observable outputs (such as transfer payments through social security programs) have less opportunity for obfuscation of bias in decision making. Thus, the task at hand, being the type of good or service provided, contributes to bureaucrats' risk of capture or

influence special interests, including political influences (Lipsky 1980; Wilson 1990).

4.3 A Theory of Political Administration Cycles

Previous research has provided theoretical and empirical evidence of the incentives faced by elected officials when making policy decisions, and about the mechanisms available to manipulate bureaucratic outputs. Bringing the implications from these separate literatures together, I now offer a theory of cyclical control of bureaucratic performance. Administrative performance, efficiency, or generosity in discretion are potential targets of political influence. Maintaining the assumption that voters are retrospective in evaluating their electoral choices (Fiorina 1981), incumbents will seek to fortify support among voters in the periods preceding an election to improve their electoral chances, and politicos should be expected to optimize their use of policy tools to bolster their electoral odds.

In hopes of favorably affecting perceptions of macroeconomic outcomes, or to target public goods at specific groups, politicians can manipulate budgets, pass new legislation, or direct the allocation of public goods. They can also put pressure on bureaucratic organizations to improve their performance. A *political administration cycle* (PAC) would provide better public services to voters, allowing elected officials the opportunity to claim credit for improving government through administrative functions. Leaning on bureaucrats to work harder or faster could be as simple as making a phone call to a top official in an agency, an office visit by a political staffer, or a memo sent around an agency by a political appointee. Being reliant on legislative budgets for resources and political support for public programs leaves agency officials in need of the cooperation of elected officials, to some degree. Because top officials surely prefer to maintain positive and beneficial relationships with political officials, they face some incentive to respond to political preferences.

Following prior research on PBCs in targeted redistribution programs with immediate and visible impacts on disposable income, including unemployment, retirement, disability, veterans, or health insurance, (Castro and Martins 2016; Keech and Pak 1989; Schultz 1995; Tufte 1978), I tailor my theory to the administration of social benefits. With respect these bureaucratic operations, electorally motivated pressure may be realized either a short term increase in de facto generosity or an improvement in service quality, each having unique advantages. On the one hand, bureaucrats may be encouraged to work harder or better, thereby having a positive effect on service quality provided to clientele. Providing this public good (service quality) to citizens requires little or no additional budgetary resources, indeed, improved efficiency may reduce the real or perceived fiscal burden of some programs. On the other hand, bureaucrats could be encouraged to exercise greater generosity in deciding benefit claims, to increase the impact of benefits on household income.

With a diverse toolbox available, politicians may choose any one or a combination of policy levers to optimize their delivery of pre-electoral goods. The choice of these tools will depend not only on ideology or partisanship, but also the economic and political contexts. Below, I argue that electoral cycles in administrative performance or exploitation of discretion are more likely when (1) incumbents face strong competition for reelection, (2) economic constraints make some policy tools less appealing, (3) when the policy area is critical to an incumbent's ideological position, and lastly, (4) where coordination of direct budget or legislative adjustments is difficult.

First, I offer naive expectations about the existence of a PAC, that administrative quality improves or de facto generosity increases in the periods leading up to an election. Administrative behavior may support a politician's pre-electoral interest in stimulating voter support either by providing better public services and the perception of better governance, or by extending greater generosity in benefit checks

to boost income. Empirically, a positive PAC will be evidenced by improvement in bureaucratic service quality and/or a change in the effective level of generosity exercised in decision making in the periods preceding an election.

HYPOTHESIS 1: Political Administration Cycles

> H_{1a}: *Administrative service quality is better in the periods preceding an election.*
>
> H_{1b}: *Administrative generosity is greater in the periods preceding an election.*

Where competition in a political system is greater, politicians face a greater incentive for the opportunistic delivery of goods and services. Close elections with tough challengers demand greater efforts by incumbents to retain their seats. Supporting the intuition behind this argument, Sørensen (2014) and Helland and Sørensen (2015) find that contexts with less party competition, generally, are associated with less administrative efficiency and service quality. Bureaucratic efficiency may be linked to or responsive to a competitive political environment. I argue the PACs will be more likely where incumbents face greater electoral uncertainty. Alternatively, that policy manipulation will be less likely where an executive finds herself facing a term limit, with no opportunity for reelection. Thus, political competition should motivate opportunistic policy cycles.

HYPOTHESIS 2: Politically Competitive PACs

> H_{2a}: *Positive electoral cycles in service quality are more likely where political competition is greater.*
>
> H_{2b}: *Positive electoral cycles in payment generosity are more likely where political competition is greater.*

I next argue that poor fiscal circumstances will mitigate the incentive for PACs in effective generosity, but will have a positive effect on PACs in service quality. Research has identified the importance of macroeconomic conditions in shaping government spending on social welfare programs (for example, Bonoli 2010; Lipsmeyer 2011; Lipsmeyer and Zhu 2011).[1] Where economic conditions are poor or governments face greater budgetary or fiscal stress, political officials should be less willing to encourage spending, generally. Not only might more generous spending worsen the real state of the budget, but it might also attract unwanted attention from a public concerned about government debt. In this context, opportunistic policy manipulation is less likely to be seen in the effective generosity of benefits, and more likely to be seen in service quality, which should have a neutral fiscal impact.

HYPOTHESIS 3: Fiscally Constrained PBCs and PACs

> H_{3a}: *Positive electoral cycles in service quality are more likely in poor fiscal circumstances.*
>
> H_{3b}: *Positive electoral cycles in payment generosity are less likely in poor fiscal circumstances.*

The policy preferences of incumbents in government will also condition PBCs or PACs. With respect to generosity of social welfare benefits, ideology is a salient dimension in determining political priorities. This suggests that *positive* cycles in de facto generosity of transfer payments should be more likely under a more left government (e.g., Hicks and Swank 1984, 1992), social welfare programs are more

[1] These studies point to the conditionality of policy responses to macroeconomic stimuli (i.e., Alesina 1987), suggesting that the sensitivity of spending to economic circumstances is contingent on government ideology and other global forces. This highlights an important area for future development of my theory— how fiscally constrained PACs might be conditional on partisanship or ideology, for example. However, these theoretical extensions lie beyond the scope of the current project.

salient or important policy issues to these parties in maintaining the support of their electoral base (e.g., Boyne et al. 2012; Hibbs 1977). Alternatively, a negative cycle in generosity may be an attractive strategy to a right-wing government seeking to demonstrate commitment to a policy goal (Jensen 2011). Right wing governments, however, may be more inclined to squeeze efficiency as an electoral strategy, suggesting that a PAC in service quality may be more likely under such incumbent governments. However, Boyne et al. (2012) find that left and right parties are no more likely to be associated with better public service performance, but rather it is partisan competition that motivates efficiency. Given these mixed results, I argue that governments from either end of the ideological spectrum should be interested in an electoral policy cycle, but that more left governments should be more likely to seek opportunistic cycles in generosity and less likely to seek cycles in efficiency or bureaucratic performance.

HYPOTHESIS 4: Ideological PBCs and PACs

> H_{4a}: *Positive electoral cycles in service quality are more likely in right-leaning governments.*
>
> H_{4b}: *Positive electoral cycles in payment generosity are less likely in right-leaning governments.*

Lastly, I consider the influence of veto players in budget coordination as a motivating factor in the choice of a PBC tool. Where institutions make budget negotiations more difficult, the use of administrative tools to achieve policy outcomes may be more appealing to politicians. It is difficult or impossible for politicians to unilaterally manipulate aggregate budget allocations, though pressure on administrators may still affect generosity at the margin. Budget coordination should be made more difficult by certain political institutions, including a bicameral legislature, a divided

government, or a divided government with a veto proof majority in the legislature, for example (Tsebelis 1995, 2002; Tsebelis and Chang 2004). In systems with comparatively more hurdles to political cooperation, service quality will be a more attractive opportunistic policy tool.

HYPOTHESIS 5: Coordinated PBCs and PACs

> H_{5a}: *Positive electoral cycles in service quality are more likely where budget coordination is more difficult.*
>
> H_{5b}: *Positive electoral cycles in payment generosity are less likely where budget coordination is more difficult.*

In the following sections, I introduce the empirical context in which I test these expectations: the US unemployment insurance system. I will then discuss in some depth a novel data source for the study of bureaucratic performance more broadly, before offering a test of my hypotheses. I conclude with a discussion and recommendations for future extensions of this theory.

4.4 Political Administration Cycles in Unemployment Insurance

To test my expectations about political cycles in administrative performance and generosity, I turn to the U.S. states. Comparing such similar programs allows for more valid comparison of decision making and performance by holding constant many important structural or organizational variables. All programs, for example, are required by the federal government to use similar audit procedures to establish, report, and publish indicators of performance. For a longer discussion of the US UI program, refer to Appendix 1.

4.4.1 Benefit Accuracy Measurement

The U.S. federal Office of Unemployment Insurance designed and implemented an improper payment detection system beginning in the 1980s, called Benefit Accuracy Measurement (BAM). This program has since become the template used by many other agencies to monitor the accuracy of claims payments. Subject to rules set by the federal Department of Labor, each state administers a random audit of paid and denied UI claims each week to reinvestigate. Only claims made for regular state unemployment compensation are considered, which means that all UCX, UCFE, EB, and EUC claims are excluded from BAM audits, and thus from all improper payment estimates. Though the rules governing statistical sampling are set by the DOL, each state agency is responsible for managing the implementation of BAM.

Once selected, every aspect of the claim determination process is scrutinized to establish accuracy of payment at every step. This requires confirmation of all documentation provided by the claimant, employer, and third parties (often labor unions filing on behalf of a claimant), and reconsideration of every decision made by agency employees. Each states' monthly and annual improper payment and integrity rates are calculated from the weekly Paid Claims Accuracy (PCA) and Denied Claims Accuracy (DCA) statistical samples. These rates are then used by the DOL in performance reviews— states are held accountable for minimum levels of service quality.

Though it would be convenient to use states' aggregated integrity rates, or error rates, to compare the quality of administrative performance, this is not a strictly valid comparison to make because states vary widely in their eligibility requirements, some being more strict, detailed, or technical than others. Also, integrity rates are a function of the quality of the random audit and investigation process. States with

higher quality performance management investigation programs may report higher error rates than those states with lower quality audit programs simply because the audit program is better at detecting errors made. This means that any comparison of states' aggregate program integrity rates must consider the possibility than an increase in reported errors may be due either to a decline in determination quality or an improvement in BAM quality. A longer discussion of these threats to validity is included in Appendix 1.

To overcome this problem of comparing aggregate performance indicators, I use a within-state approach by examining the accuracy and generosity of *individual level claims*, while including state-fixed effects in each specification. The unit of observation in my design is an audit report for an individual claim made by an unemployed individual to a state workforce agency office. Having the population of BAM sampled claims from 2002-2013 for all states (roughly 600,000 claims) allows me to test the influence of political and economic context on individual-level performance.[2] Each audit report includes information on the claimant's socio-economic and demographic characteristics, and also includes detailed information on the errors identified through reinvestigation. For the purposes of this study, I focus on two primary outcomes: whether an *error was made by an agency employee* in the determination of payment, and the *weekly benefit amount paid* to the claimant.

In Figure 4.1, the trend in error rates across states over time is shown.[3] The solid grey lines report the *agency error rates*— the percent of sampled claims in which an error was detected in the claim process, and an agency bureaucrat was determined to be at fault. The dotted lines report the *overall error rate*— the

[2]These reports were obtained by direct contact with staff at the Department of Labor (Employment Training Administration 2015).

[3]Mississippi and Louisiana are omitted from this matrix of figures, but are included in Appendix Figures A.5 and A.6, because the impact of Hurricane Katrina on the performance of these two states makes it difficult to compare the magnitude of their error rates over the period of 2006-2007.

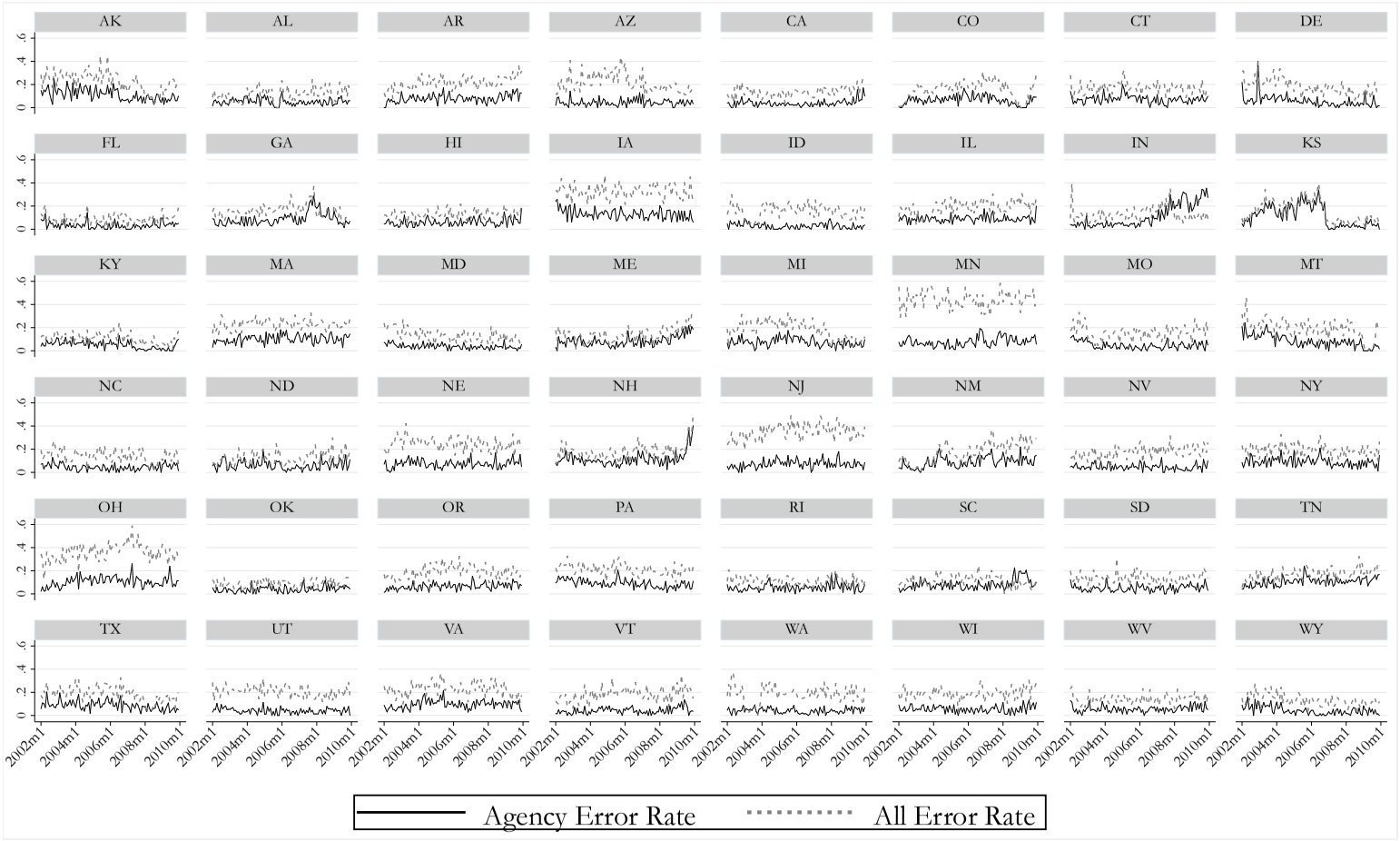


Figure 4.1: All Errors and Agent Errors, 2002-2010

percent of sampled claims in which any error was detected, regardless of fault. A few key points standout from this figure. First, as can be clearly seen in Kansas, the introduction of automated claims processing drastically cut error rates of both types. Next, there is substantial variation in the ratio of all claims to agency-fault claims across states. New Jersey and Minnesota, for example, have comparatively lower agency error rates relative to their overall error rate. This contrasts with states like Oklahoma or Kentucky, in which the agency and all-error rates are more similar.

To further consider errors made in claims determinations, in Figure 4.2 I compare the two types of payment error: overpayments and underpayments. In addition to identifying the party at fault for an error in a claim determination, the monetary value of the error in payment made to a claimant is established. In Figure 4.2, I represent only the average *rate* of over- and underpayments, and not the actual value of these errors. As shown in this figure, some states, like Minnesota or Nebraska, have higher overpayment rates relative to underpayments, while states like Massachusetts have relatively higher underpayment rates. These charts are intended to demonstrate the variation in service quality patterns across the U.S. states.

In Figure 4.3 I consider the relationship between each of the two outcomes of pertinence to my theory (agent errors and generosity of benefit payments) and proximity to an election, for illustrative purposes only. Each subfigure depicts a local polynomial smooth of either variable, with 95% confidence intervals shown in grey. The horizontal axes in Figure 4.3 represent the (reverse) count of days to the next gubernatorial election.[4] This count is calculated as the number of days between the date of initial UI claim filing– the day an individual filed their claim– and the date of the closest upcoming election. Each vertical line represents an interval of 365 days,

[4]It is important to note that because the sampling procedure used in the BAM program retroactively randomly selects a sample from each week of approximately the same size, the distribution of observations across time is close to uniform.

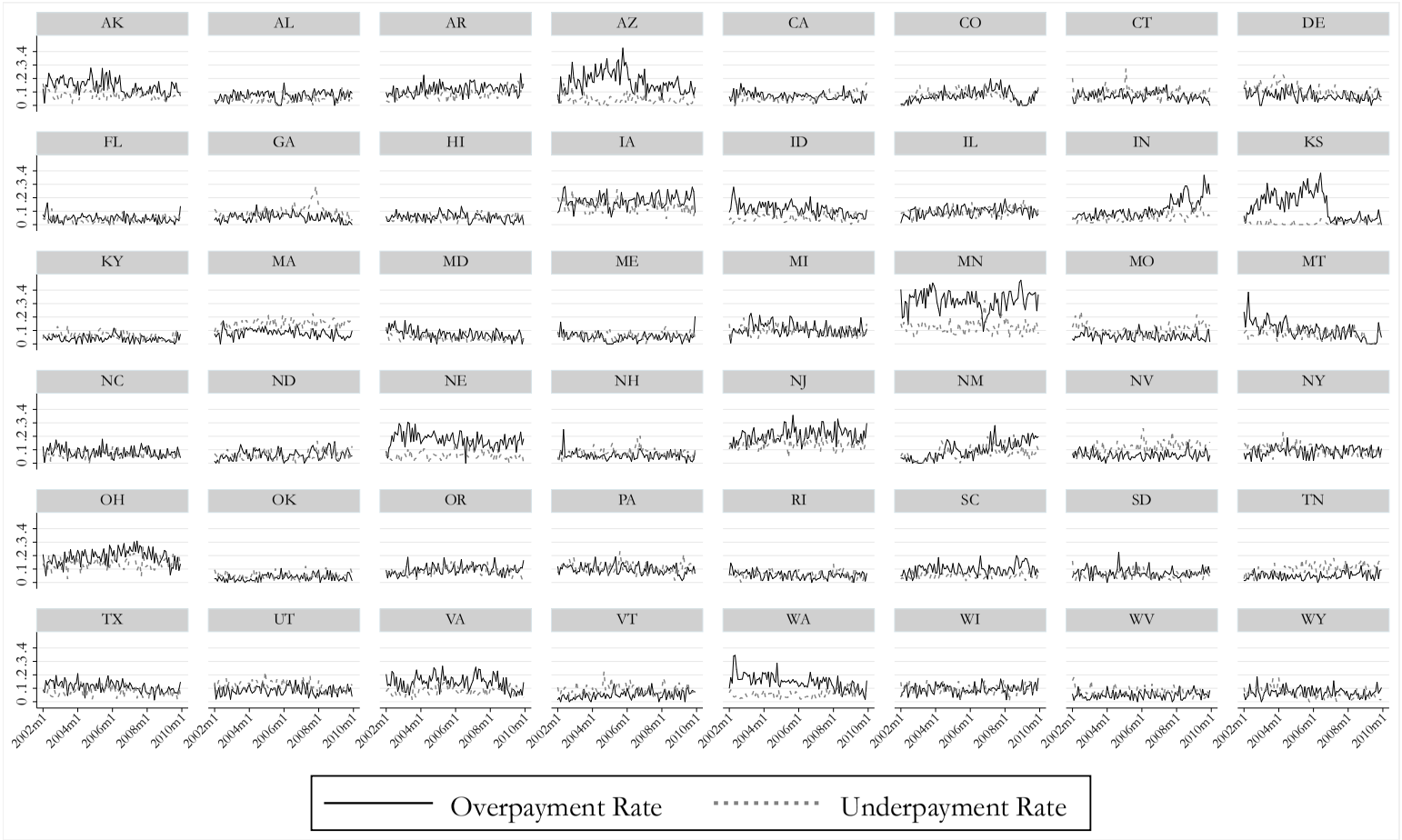


Figure 4.2: Overpayment and Underpayment Rates, 2002-2010

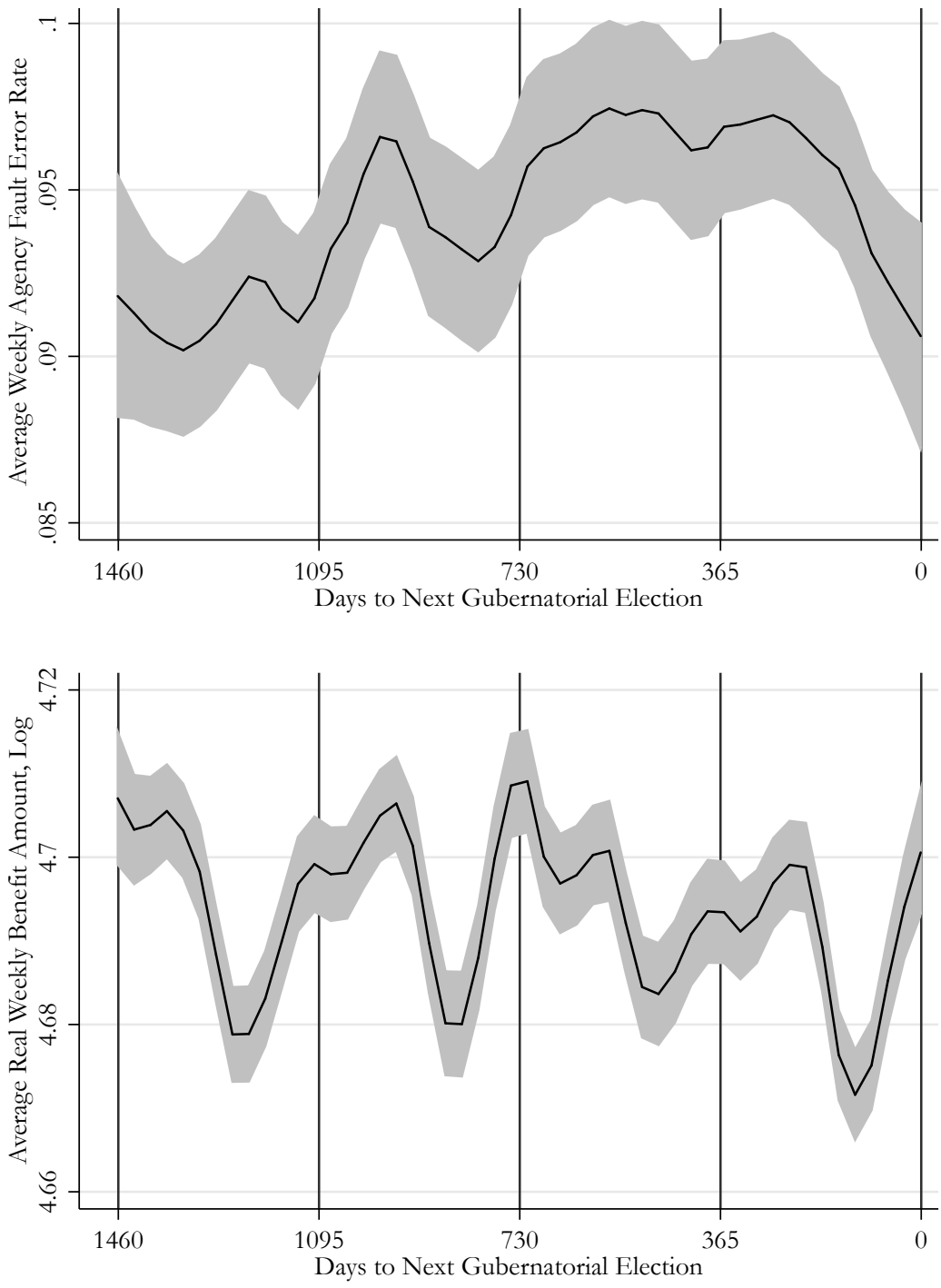


Figure 4.3: Performance and Generosity over Days to Next Election, 2002-2010

Note: Each graph depicts a local polynomial smooth of either variable plotted over the count of days to next election, with 95% confidence intervals.

an annual interval. As seen in the lower subfigure plot of the average real weekly benefit amount logged, there are notable seasonal trends in the administration of unemployment insurance. Predictable dips in generosity correspond with the summer months, for example. A point of note in this figure, however, is the decline in the average weekly agency fault error rate in the months and days counting down to zero.

To better analyze these relationships, however, I now proceed with a more sophisticated analysis. In the following section, I describe the covariates used in my model of administrative outputs and the model specification(s) that I use. I then discuss the results and findings with respect to my theoretical expectations.

4.4.2 Measurement of Individual Characteristics and Political Economy Context

As briefly discussed above, I focus my empirical analysis on two dependent variables. First, I use a dichotomous variable equal to one if it was determined the BAM by audit process that an agent was at fault for an error in the claim determination.[5] This measure of *agency error* is a simple indicator of the occurrence of an error.[6] Second, I operationalize effective generosity of program benefits as the *weekly benefit amount* paid by the agency, in logged 2007 USD.

4.4.2.1 The Individual

The outcome of an individual unemployment insurance claim is a function not only of the administrative, political, and economic contexts, but also a host of indi-

[5] *Agent responsibility* is defined as any error in a payment determination identified through BAM "for which the SWA was either solely responsible or shared responsibility with claimants, employers, or third parties, such as labor unions or private employment referral agencies. The rate includes fraud, nonfraud recoverable overpayments, nonfraud nonrecoverable overpayments, official action taken to reduce future benefits, and payments that are technically proper due to finality or other rules" (Office of Unemployment Insurance 2012).

[6] An alternative measure would be the net or absolute value of the monetary value of the error made by an agent, which is available in the BAM claims reports, and will be investigated in future research.

Table 4.1: Summary Statistics, 2002-2010

Variable	Mean	S.D.	Min.	Max.	N
Individual Claim Characteristics					
Days Until Next Election, log	6.2	1	0	7.3	336,286
Error, any Fault	0.2	0.4	0	1	336,286
Error, Agent at Fault	0.1	0.3	0	1	336,286
Claim was Underpaid	0.1	0.3	0	1	336,286
Claim was Overpaid	0.1	0.3	0	1	336,286
Wkly Benefit Amount, log real $	4.8	0.5	−0.7	5.9	300,520
Indiv. Replacement Rate, Actual	42.2	21.3	0	100	332,966
Paid Error Amt (Net)	13	42.6	−260.5	282.8	190,017
Denied Error Amt (Abs. Val.)	13.8	42.5	0	320.3	146,269
Prior Wage, log real $	5.6	0.5	−1.6	10	336,286
Female	0.4	0.5	0	1	336,286
Minority	0.4	0.5	0	1	336,286
College Degree	0	0.2	0	1	336,286
Filed Claim in Person	0.2	0.4	0	1	336,286
State Characteristics, Monthly					
Admin. Resources	12.6	7.9	1.9	90.5	332,966
Reserve Ratio	1.1	1	−0.5	4.4	332,966
Change in Workload	0	0.2	−0.5	3.7	332,966
Workload	12.2	1.2	8.6	15.2	332,966
Unemployment Rate	5.8	2	2.3	14.9	
State Characteristics, Quarterly					
Debt to GSP Ratio	7.7	3.8	1.6	20.7	332,966
Real Income per cap, log	9.8	0.1	9.5	10.1	332,966
Real GSP Growth	2.1	1.8	−5.6	8.5	332,966
State Characteristics, Annual					
State Competitiveness	88.1	8.2	65.4	100	332,966
Safe Seats, %	85.1	7.7	57.3	97.5	332,966
Divided Government	0.5	0.5	0	1	332,966
Veto Proof Leg. Majority	0.2	0.4	0	1	332,966
Gub. Lame Duck Term	0.3	0.5	0	1	332,966
Government Liberalism	54.2	28.2	3.5	97.9	332,966
Union Strength	11.4	5.7	2.3	26.2	332,966

vidual characteristics. Individual skill (*college degree*), *industry* of prior employment (at the 2-digit ISCO level), and *prior wage* (in logged real USD) will explain much of the variation in amount paid in weekly benefits, and I further include gender (*female*) and an indicator for self-identified racial or ethnic *minorities*. These factors are also relevant to models of administrative service quality. As Ryu, Wenger, and Wilkins (2012) have shown, the descriptive characteristics of a claimant have significant predictive power over the probability of a determination error, with women and minorities experiencing a higher probability of agency errors. Additionally, I include an indicator for claims that were *filed in person*, as opposed to online, by phone, or by mail, because automated claims processing is shown to improve outcomes in UI claims, particularly for women (Wenger and Wilkins 2009). Lastly, I include a dichotomous indicator of *payment*– whether the claim was paid or not. For claims that were denied payment, I either measure the paid weekly benefit amount as zero, or I use the adjusted payment amount after BAM audit evaluation. Descriptive statistics for each of these individual level variables, as well as all other measures, are reported in Table 4.1.

4.4.2.2 The Political

To represent the theoretical political and economic concepts involved in my theory, I use measures published by Klarner (2013*a*) and Klarner (2013*b*). First, I include *safe seats*, the percentage of legislative seats in the last election won by a margin of 10% or more, as a measure of political competitiveness in a state. Greater values for this variable indicate comparatively less competitive contexts. I also include an index of *state competitiveness*, which incorporates into a single measure the proportion of the state (1) senate and (2) house seats held by Democrats, (3) the proportion of the two-party vote for the Democratic candidate in the last election,

and (4) a dummy variable equal to one if the Democrats have unified control of the government. Greater values of this variable indicate comparative more competitive political environments. As a final indicator for political competition, I also include a dichotomous variable equal to one if the governor faces a term limit and is in the last year of the term, a *lame duck term*. As economic measures, I include state fiscal circumstances measured by the *state debt to GSP ratio*, *real GSP growth*, the *unemployment rate* and *real per capita income*.

To model the role of veto players in the policy process, I include an indicator equal to one for *divided government*, if the legislature and the governor are of different parties, and an indicator equal to one if the legislature has a *veto proof majority*, by either party. Next, I include *government liberalism* to account for the role of government ideology in determining policy priorities (Hibbs 1977; Hicks and Swank 1984), and measure it using a weighted average of the ideology scores for each chamber of the state legislature and the governor (Berry et al. 2007, 1998, 2010). This measure is constructed on a zero to 100 scale, with greater values representing a more leftist ideology. Lastly, as an additional control for the political environment surrounding unemployment insurance more generally, *labor union strength* is measured by the ratio of non-agricultural workers covered by a collective bargaining agreement (Hirsch, MacPherson, and Vroman 2001).

4.4.2.3 The Organizational

To account for the organizational factors that can shape bureaucratic behavior, I include four administrative control variables. First, I measure the current monthly *reserve ratio* of the current UI trust fund balance to covered wage; this is used as an indicator of program solvency. Second, I include a measure of *administrative resources*, which is the number of real dollars divided by the number of regular state

UI program claims per month. Next, I control for the size of a state program, or the overall *workload*, which is a count of all claims made in a state in a month, logged. Lastly, I include a measure of the *change in workload*, which is the percentage change in monthly claims made in a state. Together, these variables should control for the financial state of the UI program, the overall size of the program, and the intensity of the current workload, all of which might affect individual bureaucratic decision making.[7]

4.4.3 An Empirical Model of Political Administration Cycles

I model administrative outcomes as a function of a vector of individual-level characteristics $\mathbf{x}_i$ and a vector of state political and economic variables $\mathbf{z}_{jt}$ observed each month (or quarterly, or annually, depending on the variable, refer to Table 4.1 for more detail). However, a number of issues must be dealt with to avoid biased inferences arising from the multi-level structure of these data. First, the unit of observation (an individual claim) is nested within a state, and each state has a unique UI program, policies, and BAM administration. Although I include some administrative variables in my models, I account for heterogeneity in policy institutions across states using a fixed effects model by including a separate fixed intercept for each state, α_j. I am also concerned about heterogeneity across time, so I also include fixed effects for each year, ζ_t. This specification controls for any change in policy at the federal level that might affects states in the same way. Lastly, to account for unobserved idiosyncratic processes within individual agency offices, I assume an error components model with an error term composed of both an individual error v_i constant across time and space, and a random error term unique to each office, ϵ_o (Greene 2012). This model specification is shown in Eq. 4.1

[7]Each of these organizational variables are available from US Department of Labor (2016).

$$
\begin{aligned}
y_{ijt} &= \alpha_j + \zeta_t + \mathbf{x}_i^{'}\boldsymbol{\beta} + \mathbf{z}_{jt}^{'}\boldsymbol{\gamma} + u_{io} \\
&\text{where } u_{io} = v_i + \epsilon_o \\
&\qquad i = 1, ..., N \ ; \ o = 1, ..., O \ ; \\
&\qquad j = 1, ..., J \text{ and } t = 1, ..., T
\end{aligned}
\tag{4.1}
$$

In the following section, I report the results from estimation of this model.

Table 4.2: Models of Agent Errors in Claims Determinations, 2002-2010

	Linear	**Safe Seats**	**Lame Duck**	**Debt Ratio**	**Gov. Ideology**	**Divided Gov.**
Individual Fixed Effects:	H_{1a}	H_{2a}	H_{2a}	H_{3a}	H_{4a}	H_{5a}
Days to Next Election, log	−0.012	−0.144	−0.023∗	−0.016	0.015	0.007
	(0.140)	(0.058)	(0.019)	(0.339)	(0.371)	(0.579)
Prior Wage, log Real $	−0.010	−0.010	−0.010	−0.010	−0.010	−0.010
	(0.531)	(0.537)	(0.525)	(0.532)	(0.531)	(0.528)
Female	0.014	0.015	0.014	0.014	0.014	0.015
	(0.326)	(0.322)	(0.327)	(0.326)	(0.327)	(0.319)
Minority	0.025	0.025	0.025	0.025	0.025	0.025
	(0.099)	(0.097)	(0.102)	(0.098)	(0.101)	(0.096)
College Degree	0.046	0.046	0.046	0.046	0.046	0.046
	(0.270)	(0.270)	(0.271)	(0.270)	(0.271)	(0.268)
Claim Filed in Person	−0.141∗∗∗	−0.141∗∗∗	−0.140∗∗∗	−0.141∗∗∗	−0.141∗∗∗	−0.142∗∗∗
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Claim was Paid	−0.742∗∗∗	−0.742∗∗∗	−0.742∗∗∗	−0.742∗∗∗	−0.742∗∗∗	−0.742∗∗∗
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Cross-Level Fixed Effect Interactions:						
Days to Elec., log × Safe Seats, %		0.002				
		(0.082)				
Days to Elec., log × Lame Duck			0.035∗			
			(0.031)			
Days to Elec., log × Debt				0.000		
				(0.823)		
Days to Elec., log × Gov. Liberal.					−0.001	
					(0.053)	
Days to Elec., log × Divided Gov.						−0.033∗
						(0.026)
State Fixed Effects:						
Safe Seats, %	−0.003	−0.013	−0.003	−0.003	−0.003	−0.003
	(0.271)	(0.040)	(0.307)	(0.269)	(0.288)	(0.259)
Gub. Lame Duck Term	−0.039∗	−0.040	−0.262∗	−0.039∗	−0.041∗	−0.038
	(0.046)	(0.041)	(0.013)	(0.046)	(0.038)	(0.055)

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Table 4.2 – *Continued from previous page - Models of Agent Errors*

	Linear	**Safe Seats**	**Lame Duck**	**Debt Ratio**	**Gov. Ideology**	**Divided Gov.**
Debt to GSP Ratio	0.118***	0.118***	0.120***	0.116***	0.117***	0.118***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Government Liberalism	−0.005***	−0.005***	−0.005***	−0.005***	−0.002	−0.005***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.302)	(0.000)
Divided Government	0.128***	0.127***	0.129***	0.128***	0.127***	0.337***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
State Competitiveness	−0.016***	−0.016***	−0.016***	−0.016***	−0.016***	−0.016***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Veto Proof Leg. Majority	−0.297***	−0.299***	−0.289***	−0.296***	−0.298***	−0.304***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Union Strength	−0.043***	−0.043***	−0.044***	−0.043***	−0.043***	−0.044***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Admin. Resources	0.003	0.003	0.003	0.003	0.004	0.003
	(0.246)	(0.317)	(0.276)	(0.247)	(0.186)	(0.205)
Reserve Ratio	−0.099***	−0.101***	−0.098***	−0.099***	−0.096***	−0.099***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Workload	0.202***	0.200***	0.203***	0.201***	0.212***	0.201***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.000)	(0.001)
Δ *Workload*	−0.065	−0.064	−0.067	−0.065	−0.067	−0.063
	(0.207)	(0.215)	(0.193)	(0.208)	(0.198)	(0.221)
Real GSP Growth	0.018**	0.019**	0.019**	0.018**	0.019**	0.017**
	(0.003)	(0.003)	(0.002)	(0.003)	(0.003)	(0.007)
Constant	−3.154***	−2.306*	−3.108***	−3.130***	−3.446***	−3.222***
	(0.000)	(0.013)	(0.000)	(0.000)	(0.000)	(0.000)
State Random Effects:						
Var(Administration Office ID)	0.027***	0.027***	0.027***	0.027***	0.027***	0.027***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
N	336,286	336,286	336,286	336,286	336,286	336,286

Note: Coefficients from logistic regression with random effects by administrative office to which claim was made. Dependent variable is dichotomous indicator equal to one if determination error was made and an agency employee was at fault. Coefficients for fixed-effects prior industry of employment, year, and state in which claim were made are estimated and not reported here. $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$, for a two tailed hypothesis test. Fixed effects for individual industry of prior employment included, but not reported here. Sample includes each of the 50 U.S. states from 2002-2010.

Table 4.3: Models of Claims Determination Generosity, 2002-2010

	Linear	**Safe Seats**	**Lame Duck**	**Debt Ratio**	**Gov. Ideology**	**Divided Gov.**
Individual Fixed Effects:	H_{1b}	H_{2b}	H_{2b}	H_{3b}	H_{4b}	H_{5b}
Days to Next Election, log	0.001	−0.015	−0.001	0.006***	0.000	0.002*
	(0.070)	(0.057)	(0.554)	(0.000)	(0.917)	(0.038)
Prior Wage, log Real $	0.553***	0.553***	0.553***	0.553***	0.553***	0.553***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Female	−0.053***	−0.053***	−0.053***	−0.053***	−0.053***	−0.053***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Minority	−0.025***	−0.025***	−0.025***	−0.025***	−0.025***	−0.025***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
College Degree	−0.080***	−0.080***	−0.080***	−0.080***	−0.080***	−0.080***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Claim Filed in Person	0.002	0.002	0.002	0.002	0.002	0.002
	(0.357)	(0.338)	(0.314)	(0.355)	(0.363)	(0.365)
Claim Was Paid	0.071***	0.071***	0.071***	0.071***	0.071***	0.071***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Cross-Level Fixed Effect Interactions:						
Days to Elec., log × Safe Seats, %		0.000*				
		(0.035)				
Days to Elec., log × Lame Duck			0.007***			
			(0.000)			
Days to Elec., log × Debt				−0.001**		
				(0.002)		
Days to Elec., log × Gov. Liberal.					0.000	
					(0.326)	
Days to Elec., log × Divided Gov.						−0.002
						(0.264)
State Fixed Effects:						
Safe Seats, %	0.002***	0.001	0.002***	0.002***	0.002***	0.002***
	(0.000)	(0.391)	(0.000)	(0.000)	(0.000)	(0.000)
Gub. Lame Duck Term	−0.004*	−0.004*	−0.046***	−0.004*	−0.004	−0.004
	(0.047)	(0.042)	(0.000)	(0.041)	(0.054)	(0.055)

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Table 4.3 – *Continued from previous page - Models of Generosity*

	Linear	**Safe Seats**	**Lame Duck**	**Debt Ratio**	**Gov. Ideology**	**Divided Gov.**
Debt to GSP Ratio	−0.001	−0.001	−0.000	0.003	−0.001	−0.001
	(0.446)	(0.453)	(0.645)	(0.070)	(0.462)	(0.442)
Government Liberalism	−0.000***	−0.000***	−0.000***	−0.000***	−0.001***	−0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)
Divided Government	0.007*	0.007*	0.007*	0.007*	0.007*	0.017
	(0.013)	(0.016)	(0.012)	(0.013)	(0.012)	(0.069)
State Competitiveness	0.000*	0.001*	0.000*	0.000*	0.000*	0.000*
	(0.028)	(0.026)	(0.045)	(0.032)	(0.030)	(0.037)
Veto Proof Leg. Majority	0.015***	0.015***	0.016***	0.015***	0.016***	0.015***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Union Strength	0.001	0.001	0.001	0.001	0.001	0.001
	(0.169)	(0.148)	(0.178)	(0.246)	(0.172)	(0.186)
Admin. Resources	−0.000*	−0.001*	−0.001*	−0.000	−0.001*	−0.000
	(0.048)	(0.033)	(0.038)	(0.051)	(0.041)	(0.054)
Reserve Ratio	0.002	0.002	0.002	0.002	0.002	0.002
	(0.325)	(0.379)	(0.259)	(0.344)	(0.348)	(0.314)
Δ *Workload*	−0.008	−0.008	−0.008	−0.008	−0.008	−0.008
	(0.123)	(0.128)	(0.102)	(0.127)	(0.124)	(0.125)
Workload	−0.004	−0.004	−0.004	−0.003	−0.005	−0.004
	(0.474)	(0.473)	(0.528)	(0.554)	(0.436)	(0.474)
Real GSP Growth	−0.002*	−0.002*	−0.002*	−0.002*	−0.002*	−0.002**
	(0.011)	(0.015)	(0.014)	(0.012)	(0.011)	(0.009)
Constant	1.616***	1.717***	1.624***	1.584***	1.630***	1.612***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
State Random Effects:						
Var(Administration Office ID)	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
N	300,517	300,517	300,517	300,517	300,517	300,517

Note: Coefficients from GLS regression with random effects by administrative office to which claim was made. Dependent variable is weekly benefit amount paid, in logged 2007 USD. Coefficients for fixed-effects by prior industry of employment, year, and state in which claim were made are estimated and not reported here. $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$, for a two tailed hypothesis test. Fixed effects for individual industry of prior employment included, but not reported here. Sample includes each of the 50 U.S. states from 2002-2010.

4.5 Results and Findings

Results from six model specifications of each dependent variable are reported in Tables 4.2 and 4.3. Both tables are organized in the same way, with the hypothesis tested in each column noted in the heading. Before discussing the results of my hypothesis tests, a number of points are worth noting from these tables. First, in Table 4.2, it is surprising that almost no individual characteristics predict the probability of agent error. This contradicts the expectation from some previous literature (Ryu, Wenger, and Wilkins 2012). In Table 4.3, however, individual factors are strong and significant predictors of generosity in payment, as should be expected. Having a higher prior wage increases the amount paid in benefits, while being female or a minority reduces claim generosity. Oddly, having a college degree, ceteris paribus, is associated with less generous benefit payment. Further down the tables, the estimated effects of state political and economic context are reported. With respect to the first column in Table 4.2, errors in claims are less likely in states with more liberal governments, greater political competitiveness, and a higher reserve ratio. The first column in Table 4.3 reports fewer significant results, and a puzzling result is the negative (though very small) association between government liberalism and generosity.

I now turn to a discussion of my hypotheses tests. The first columns in these two tables report results from models testing my first hypotheses that errors will be less likely and generosity will be greater in closer proximity to an election. Evidence for these expectations would be seen in a *positive* coefficient on the days to next election variable in Table 4.2 and a *negative* coefficient on this variable in Table 4.3. However, neither the signs on these coefficients, nor the significance are supportive of my theorized PAC pattern. Rather, the results in the first columns of these two

tables suggest that proximity to an election is not significantly associated with either agent errors or generosity. This null result with respect to the coefficient estimates on proximity to the next election persists across most specifications in these tables.

To test each of my interactive hypotheses (sets 2 through 5), I include in each model a multiplicative interaction term between the *days to election* variable and the relevant political indicator. I now proceed with a limited discussion of the evidence for the remaining four sets of hypotheses, despite the difficulty of interpretation without graphically presenting predicted marginal effects (Brambor, Clark, and Golder 2005).[8] My second hypothesis that political competition will increase the magnitude of opportunistic manipulation of both agency service quality and generosity are not strongly supported by the results. In Table 4.2, although the estimated coefficients the *safe seats* and *lame duck* variables are in the expected direction, they are not significant. The interaction terms are similarly in the expected positive direction, but Wald-type tests of the joint significance of the nonlinear combination of the two constitutive terms and the interaction terms for both the safe seats and lame duck models in Table 4.2 fail to reject the null hypothesis. Similarly, the results in Table 4.3 offer inconsistent evidence. The results from these two models testing the second hypothesis suggest that generosity is greater in less competitive political environments, and that this relationship increases with distance to an election. Overall, these results are not supportive of my expectations.

My third hypothesis anticipated that increased financial strain, indicated by a higher debt ratio, will reduce the magnitude of an electoral cycle in generosity, but will positively impact the cycle in agent errors. Again with respect to the results

[8]The size of this sample and complexity of the model specification make prediction of these marginal effects computationally intense. Figures representing these interactive relationships will be made available to the reader in the near future. For now, I proceed without them. As the discussion makes clear, the findings presented here are unlikely to be substantively altered by graphical inferences.

from the models of agent errors, significance in effects is illusive, and the coefficients are also not in the expected direction. The interactive debt ratio models in Table 4.3 also fail to support my expectation, and indeed the estimated effects are significant, but in an unexpected direction. Again, these results do not support my third set of hypotheses that fiscal constraints incentivize political cycles in administrative performance.

Next, the columns titled "government ideology" in these two tables report the results of my fourth hypothesis test. I expect that less liberal governments will magnify a positive electoral cycle in performance, but will not be associated with a similar increase in generosity preceding an election. Neither dependent variable model offer any evidence in support of these expectations. Finally, the last columns in Tables 4.2 and 4.3 report the results of my fifth and final hypothesis test. I expected that increased difficulty of coordination in government policy maker, operationalized by an indicator for divided government, would increase the presence of a cycle in performance, but not in generosity. Again, in neither dependent variable model is evidence strongly supportive of my expectations. In the next section, I discuss the implication of these null results for future research.

4.6 Discussion and Conclusion

The findings from my empirical tests offer no consistent support for my theory of a political administration cycle in either effective generosity or in performance quality. In fact, where significant associations are seen between the political variables I identify and the outcomes of interest, the relationships are often in the opposite direction of what I expected. Given the overwhelming lack of support for my theory, I offer some suggestions for future extensions or alterations to this theory.

First, I maintained individual claims as the unit of observation in this study to

control for claimant characteristics and to exploit fine grained detail in proximity to elections. To reconsider these theoretical expectations using aggregated agency performance or generosity indicators may be worthwhile. Reconsidering operationalization of theoretical concepts, including proximity to an election, might also yield more meaningful findings. Considering alternative dependent variable measures is also worthy of consideration. BAM claims reports include far greater detail of individual claims errors, in type, responsibility, and magnitude of under/over-payment than I have been able to explore in this chapter.

Alternatively, this lack of support for an electoral cycle in public service quality or effective generosity may reflect the empirical reality that politicians do not exploit administration of unemployment insurance for electoral gain. First, the visibility of service quality is low, and arguably only perceived by those citizens receiving in the service. If used for clientelistic purposes, this may be a weak tool with little payoff. Second, the potential efficiency gains from improved service quality might positively impact budgets or performance evaluations, which can be used by politicians to claim credit, but the effect will be delayed. Simply, the political advantages of encouraging greater efficiency or accuracy of decision making in bureaucratic organizations may be too small. Lastly, the clientele of unemployment insurance programs are the individuals most likely to perceive the improvement in public service, however, this is only a small subset of the population, and it has been documented that economic adversity is negatively associated with voter turnout (Rosenstone 1982). Thus, although the set of administrative policy tools may be less costly to elected officials than coordinating an opportunistic allocation of budget items, the benefits of exploiting these bureaucratic levers may be too narrowly focused, targeted at unlikely voters, and/or simply not visible enough to attract the political attention.

5. CONCLUSION

Understanding how and why governments choose policy instruments is a critical component of evaluating the responsiveness and effectiveness of democratic governance. Politicians and bureaucrats make decisions at every stage of the policy making process that have very real consequences for citizens' wellbeing, as well as equity and representation. In this dissertation, I have incorporated into a political economy explanation of unemployment insurance the importance of political motivations, economic context, and social institutions. The politics of unemployment insurance are shaped not only by economic risk and the inherent problems of information asymmetry and coordination, but also by social institutions, strategic political maneuvering for control, and by electoral motivations. By linking together separate literature to bridge insights from across subfields and disciplines and acknowledging specific features of unemployment insurance policies, I offer theoretical innovations and two original data sources with which to test their implications. The contribution of this dissertation is both theoretical and empirical.

In answering these questions, I have argued and demonstrated that the choice of policy instrument to alleviate economic insecurity cannot be explained without attention to the political and economic context in the development and ongoing functioning of social insurance programs. Government responses to economic insecurity cannot be explained without acknowledging the conditioning or moderating influence of economic, social, or political (contextual) factors.

In Chapter 2, I synthesized the literature from comparative politics on decentralization and the literature from public administration on institutional choice. Underlying both of these extant sets of theories are principles of coordination and informa-

tion asymmetries. Using a game theoretic framework, I derived a series of testable implications which will feed into future research projects to more completely explain why politicians sometimes abdicate control by delegating administrative authority to lower levels of government. The interconnectedness of economic (efficiency) and political motivations explain why sometimes it is rational to give away authority to best represent policy preferences.

By integrating these theoretical approaches into a single model under a unified set of assumptions, I have advanced a more general model of institutional choice. The precision gained by formally expressing these ideas allows for the derivation of expectations in multiple dimensions. First, there is a critical trade-off between cost of control and oversight, and the advantages gained by delegating to experts. Second, there is a trade-off between economic efficiency and the flexibility of policy to represent diverse interests. Lastly, these considerations are further shaped by preexisting and persistent policy institutions, which make policy reversals or alterations more difficult. As I have shown in this dissertation, the decision to delegate and decentralize is context dependent, and conditional on political polarization, political uncertainty, and institutionalized veto players.

The lesson from this chapter is that public policy is politically motivated, yet often the consequences of political institutions for policy or objective outcomes are considered without considering the endogeneity of their form. Reiterating the foundational argument from theory of path dependency, this chapter illustrates the importance of past decision making to contemporary or future policy adjustment. Specifically, I have identified political polarization, political uncertainty, and veto players as critical factors in the decision to delegate authority by decentralizing unemployment insurance and maintaining centralized social security in the US. These institutional choices will have consequences for the implementation and development of public

policy over time, making recentralization of unemployment insurance, for example, far more costly. Simply, the policy making process is a rational process, and only by modeling this process including those initial choices of institutional design can the outputs and real effects of governance be understood.

In Chapter 3, I brought together theories on the political economy of comparative social welfare and social institutions' role in policy making. Coordination is critical to the development, evolution, and functioning of social welfare policy institutions, and it is through informal social institutions (social capital) that communities may organize informal insurance or may prompt more comprehensive and responsive public policy. I have argued that there exists an important role for informal social institutions of cooperation. Being a critical factor in providing public goods, such as the provision of unemployment insurance, the propensity of market actors to cooperate will have implications not for public policy as well as the ability of communities to coordinate informal substitutes for social insurance.

When theorized as a set of informal institutions that maintain and incentivize cooperation between actors, the functions of social capital in a capitalist market economy can be viewed through the lens of political economy theory. Public programs buffering individuals against risks inherent in modern labor markets, including unemployment insurance, developed over time as interested actors negotiated their design out of self-interest. Where coordination was less costly, governments developed comprehensive and inclusive institutions of social insurance. Furthermore, the influence of social capital on policy outcomes is not unidimensional, and may serve to promote greater generosity or serve as a functional substitute for public insurance.

The implications from this chapter are twofold. First, theory of comparative social welfare institutions can be advanced by considering the role of informal social institutions not only in shaping the public policy process, but also as the provider of

public goods or services that rival the state. Second, theory of social capital can be advanced by taking a multidimensional view of these informal institutions. Coordination may work through state institutions with implications for policy responsiveness, or it may provide functions that rival public policy through informal insurance.

Finally, in Chapter 4, I integrated literatures from the study of political-electoral cycles in public policy and from the study of political control of public administration. Despite both having roots in the public choice tradition, these two separate theories have not been fully integrated to offer a unified theory of political cycles in bureaucratic performance. Having advanced an initial theory of such political administration cycles, I use novel data to test my expectations. The contribution of this chapter is again, both theoretical and empirical. Although little empirical evidence for my expectations is found, there are opportunities to extend this chapter in more fruitful directions.

The findings in this chapter reiterate previous literature in both public administration and political economy. I find no evidence of political manipulation of bureaucratic outputs, just as political control and public management theory would suggest. Street-level bureaucrats are well insulated and resilient to any effect of electoral cycles. Also, these null results align with the extant ambiguity of empirical support for political budget cycles. Although politicians may have multiple policy tools available to them, these findings suggest that they either do not attempt or find themselves unable to exploit administrative performance as a policy instrument for electoral gain.

In conclusion, the choices made in the public policy process are shaped by historical political context and uncertainty, the outputs of public programs are conditional on informal social institutions, and the administration of program outputs are not susceptible to electoral cycles. These findings contribute to theory in comparative

politics and public administration, and they point towards the importance of a governance perspective of public policy. Substantive implications from the study of public policy will be improved by theories that account for these economic, social, and political factors explaining both the development and functioning of public programs in modern capitalist democracies.

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A. APPENDIX: ADDITIONAL TABLES & FIGURES

Table A.1: Social Capital Indicator Descriptive Statistics, 2000-2013

SC Survey Indicator:	**Mean**	**S. D.**	**Min**	**Max**
Charitable Activity				
Donated Clothing	0.02	0.01	0.00	0.09
Donated Food	0.04	0.02	0.00	0.12
Donated Money	0.52	0.05	0.38	0.72
Fundraising Activity	0.03	0.02	0.00	0.09
Community Organizational Life				
Arts Organization	0.04	0.03	0.00	0.22
Civic Organization	0.07	0.02	0.01	0.12
Education Organization	0.04	0.02	0.00	0.15
Social or Community Service Org.	0.16	0.03	0.06	0.29
Social Organization	0.78	0.09	0.49	0.99
Sports Organization	0.04	0.02	0.00	0.15
Youth Organization	0.06	0.02	0.00	0.13
Community Volunteerism				
Contribute to Fix a Prob. in Community	0.09	0.03	0.02	0.23
Not Participate for"Lack of Interest"	0.06	0.03	0.00	0.17
Not Participate for "Lack of Resources"	0.44	0.07	0.09	0.63
Not Participate for "Life Situation"	0.10	0.03	0.03	0.21
Environmental Organization	0.03	0.01	0.00	0.07
Health Organization	0.03	0.02	0.00	0.14
Hours Volunteered, Overall	1.18	0.78	0.00	4.42
Immigrant or Migrant Organization	0.01	0.01	0.00	0.04
International Organization	0.02	0.01	0.00	0.05
Number of Weeks Volunteered	0.55	0.21	0.00	1.60
Participated for Self-Motivated Reasons	0.35	0.09	0.07	0.68
Volunteered (Yes/No)	0.38	0.12	0.17	0.74
Volunteered Professional Services	0.07	0.02	0.00	0.17
Engagement in Public Affairs				
Attended a Political Meeting	0.12	0.03	0.05	0.24
Contact Elected Official Direct	0.12	0.03	0.05	0.25
Discusses Politics with Friends	0.73	0.08	0.45	0.94
Participated in a Boycott	0.10	0.04	0.01	0.24
Registered to Vote	0.42	0.09	0.17	0.81
Volunteered for Political Party	0.02	0.01	0.00	0.07
Voted in Last Election	0.66	0.10	0.40	0.92
Informal Sociability				

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Table A.1 – *Continued from previous page*

SC Survey Indicator:	**Mean**	**S. D.**	**Min**	**Max**
Contact Employers Direct in Job Search	0.88	0.05	0.69	1.00
Does Favors for Neighbors	0.60	0.07	0.33	0.84
Invited by Friends and Family	0.30	0.05	0.10	0.48
Invited by Co-Worker	0.08	0.02	0.01	0.20
Time at Current Address	5.01	0.15	4.36	5.38
Friends and Family for Job Search	0.19	0.08	0.00	0.48
Professional Network for Job Search	0.06	0.03	0.00	0.20
Invited by Someone Else	0.45	0.05	0.32	0.73

Table A.2: Principal Component Factor Analysis, 2000-2013

		Factor 1	**Factor 2**	**Factor 3**	**Factor 4**	
	Eigenvalue	7.71	5.78	4.79	2.53	
	Difference	1.92	0.99	2.25	0.22	
	Proportion	0.20	0.15	0.12	0.07	
	Cumulative	0.20	0.35	0.47	0.53	
SC Survey Indicator		**Factor 1**	**Factor 2**	**Factor 3**	**Factor 4**	**Uniqueness**
	Charitable Activity					
Donated Clothing		0.51	−0.24	0.72	0.12	0.16
Donated Food		0.62	−0.18	0.52	−0.02	0.30
Donated Money		0.70	0.24	0.1	0.23	0.39
Fundraising Activity		0.38	−0.12	0.7	0.29	0.27
	Community Organizational Life					
Arts Organization		0.41	0.37	−0.11	−0.51	0.43
Civic Organization		0.31	0.48	−0.1	0.21	0.62
Education Organization		0.77	−0.4	0.31	−0.09	0.14
Social or Community Service Organization		0.08	0.65	0.01	0.18	0.54
Social Organization		−0.21	0.52	0.72	−0.02	0.17
Sports Organization		0.41	0.62	0.25	−0.37	0.24
Youth Organization		0.79	−0.35	0.2	−0.15	0.19
	Community Volunteerism					
Contribute to Fix a Problem in Community		0.56	0.42	0.02	0.34	0.4
Did Not Participate for “Lack of Interest”		0	0.67	−0.3	−0.43	0.27
Did Not Participate for “Lack of Resources”		0.21	−0.65	−0.07	0.32	0.42
Did Not Participate for “Life Situation”		−0.01	−0.37	−0.44	0.3	0.57
Environmental Organization		0.04	0.39	−0.24	0.34	0.67
Health Organization		0.47	−0.41	−0.28	−0.14	0.52
Hours Volunteered, Overall		0.55	−0.47	−0.26	0.01	0.42
Immigrant or Migrant Organization		0.31	−0.07	−0.68	−0.08	0.43

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Table A.2 – *Continued from previous page*

SC Survey Indicator	**Factor 1**	**Factor 2**	**Factor 3**	**Factor 4**	**Uniqueness**
International Organization	0.37	0.01	−0.53	−0.01	0.58
Number of Weeks Volunteered	0.75	−0.37	0.43	−0.06	0.11
Participated for Self-Motivated Reasons	0.08	−0.23	−0.15	−0.19	0.88
Volunteered (Yes/No)	0.61	0.31	−0.25	−0.26	0.39
Volunteered Professional Services	0.75	0.23	0.44	−0.07	0.18
Engagement in Public Affairs					
Attended a Political Meeting	0.64	0.31	−0.46	0.38	0.13
Contacted Politician or Elected Official Directly	0.47	0.56	−0.16	0.27	0.37
Discusses Politics with Friends	0.57	0.03	−0.55	0.25	0.32
Participated in a Boycott	0.51	0.61	−0.1	−0.12	0.34
Registered to Vote	−0.1	−0.24	0.17	0.48	0.67
Volunteered for Political Party	−0.05	0.39	0.13	0.44	0.63
Voted in Last Election	0.26	0.62	0.01	−0.15	0.53
Informal Sociability					
Does Favors for Neighbors	0.57	−0.2	−0.42	0.25	0.4
Invited by Friends and Family to Volunteer	−0.37	0.21	−0.04	0.16	0.79
Invited to Participate by Co-Worker to Volunteer	−0.29	0.22	−0.11	0.13	0.84
Time at Current Address	−0.22	0.24	0.27	0.2	0.78
Uses Friends and Family Network for Job Search	−0.32	0.29	0.41	0.06	0.65
Uses Professional Network for Job Search	0.04	0.23	0.1	0.31	0.84
Was Invited to Participate by Someone Else	0.34	−0.2	0.11	−0.16	0.81

Table A.3: Models of UI Generosity, 2001-2013, with Panel-Corrected Standard Errors

	Spending		*Coverage*		*Benefit Amount*		*Duration*	
	UI Spend % GSP	**UI Spend Log**	**Insured Rate**	**Recipiency Rate**	**Weekly Benefit**	**Replacement Rate**	**Exhaustee Duration**	**Average Duration**
Lag Dep. Var	0.311**	0.500***	0.902***	0.750***	0.951***	0.937***	0.910***	0.511***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Unemployment Rate	0.000	0.005	−0.040	−1.458***	−0.010***	−0.361***	−0.078***	0.245***
	(0.060)	(0.750)	(0.450)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Civic & Pol. SC_{t-1}	0.000**	0.067**	−0.057	1.180**	0.012***	0.357**	−0.032	0.368***
	(0.002)	(0.003)	(0.455)	(0.008)	(0.000)	(0.008)	(0.358)	(0.001)
Charit. & Vol. SC_{t-1}	0.000	−0.007	−0.018	−0.355	−0.003	−0.189*	−0.068*	0.040
	(0.309)	(0.697)	(0.786)	(0.212)	(0.171)	(0.041)	(0.034)	(0.560)
Labor Force, log	0.000***	0.690***	−2.455***	4.413*	0.022	1.677*	−0.083	−1.204*
	(0.000)	(0.000)	(0.000)	(0.011)	(0.125)	(0.021)	(0.758)	(0.047)
Gov. Liberalism$_{t-1}$	0.000**	0.002**	−0.007***	0.009	−0.000	−0.004	0.002	0.007**
	(0.004)	(0.002)	(0.001)	(0.313)	(0.498)	(0.160)	(0.443)	(0.007)
Union Strength$_{t-1}$	0.000***	0.021***	−0.025	0.266***	0.000	0.021	0.011	0.027
	(0.000)	(0.000)	(0.100)	(0.000)	(0.328)	(0.259)	(0.115)	(0.130)
Reserve Ratio$_{t-1}$	0.000***	0.071***	−0.142*	1.158***	0.009***	0.399***	0.093*	0.164
	(0.001)	(0.000)	(0.014)	(0.000)	(0.001)	(0.000)	(0.010)	(0.172)
Real GSP, Log	−0.000***	−0.137	2.406***	−3.392*	−0.010	−1.413	0.150	1.400*
	(0.000)	(0.175)	(0.000)	(0.030)	(0.483)	(0.055)	(0.570)	(0.019)
Δ*Income, real pc.*	−0.000***	−0.047***	0.140***	−0.618***	−0.005***	−0.256***	−0.077***	−0.182***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Ethnic Diversity	−0.000	−0.001	0.003	0.018	−0.000	−0.008	0.005	−0.006
	(0.140)	(0.192)	(0.445)	(0.228)	(0.076)	(0.174)	(0.205)	(0.393)
Constant	−0.000***	−2.388***	13.933***	−9.923	0.133	−1.824	1.336	7.081**
	(0.000)	(0.000)	(0.000)	(0.168)	(0.185)	(0.390)	(0.272)	(0.004)
N	650	650	650	650	650	650	650	650

Note: Coefficient estimates from OLS regression with a panel-specific AR1 correction and Panel-Corrected Standard Errors reported in parentheses (Beck 2001). $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$, for a two tailed hypothesis test. Sample includes each of the 50 U.S. states from 2001-2013.

Table A.4: Linear Models of UI Generosity, 2001-2013, with State Fixed Effects

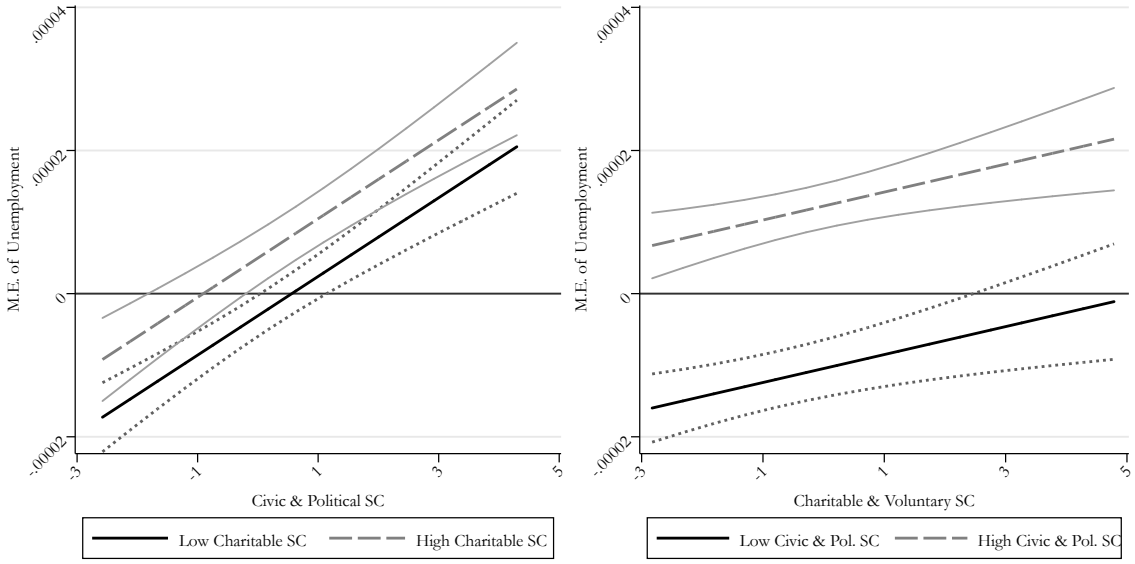
	Spending		*Coverage*		*Benefit Amount*		*Duration*	
	UI Spend % GSP	**UI Spend Log**	**Insured Rate**	**Recipiency Rate**	**Weekly Benefit**	**Replacement Rate**	**Exhaustee Duration**	**Average Duration**
Unemployment Rate	0.000***	0.119***	−0.244**	−1.102***	0.008***	0.244**	0.054	0.669***
	(0.000)	(0.000)	(0.003)	(0.000)	(0.001)	(0.003)	(0.292)	(0.000)
Civic & Pol. SC_{t-1}	0.000***	0.048***	−0.031	1.059**	0.003	0.110	−0.071	0.121
	(0.001)	(0.000)	(0.604)	(0.002)	(0.333)	(0.265)	(0.122)	(0.254)
Charit. & Vol. SC_{t-1}	−0.000	−0.034**	−0.221***	−0.696*	−0.009**	−0.278*	−0.008	0.170*
	(0.477)	(0.002)	(0.001)	(0.021)	(0.005)	(0.024)	(0.854)	(0.024)
Labor Force, log	0.000***	1.841**	−31.201***	39.589*	0.272	12.156	1.902	−6.637
	(0.001)	(0.002)	(0.000)	(0.017)	(0.154)	(0.070)	(0.489)	(0.124)
Gov. Liberalism$_{t-1}$	0.000***	0.002***	−0.010**	0.043***	0.000	−0.003	0.001	0.010**
	(0.000)	(0.000)	(0.004)	(0.001)	(0.941)	(0.551)	(0.667)	(0.002)
Union Strength$_{t-1}$	0.000*	0.023*	−0.084	0.497	0.003	0.103	−0.048	0.041
	(0.044)	(0.049)	(0.390)	(0.115)	(0.292)	(0.186)	(0.472)	(0.573)
Reserve Ratio$_{t-1}$	0.000	0.028	0.575*	1.263	0.007	0.220	−0.091	−0.427**
	(0.063)	(0.249)	(0.012)	(0.063)	(0.346)	(0.372)	(0.556)	(0.003)
Real GSP, Log	−0.000	0.635**	22.181***	−5.353	0.416***	0.901	0.384	6.062*
	(0.063)	(0.005)	(0.000)	(0.322)	(0.000)	(0.737)	(0.717)	(0.012)
Δ*Income, real pc.*	−0.000***	−0.039***	−0.057***	−0.837***	−0.007***	−0.245***	−0.065***	−0.094***
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Ethnic Diversity	0.000***	0.120***	0.558**	2.440***	0.033***	1.054***	0.213*	0.150
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.023)	(0.270)
Constant	−0.005***	−33.115***	212.078**	−677.339**	−6.919*	−240.750**	−27.108	21.649
	(0.000)	(0.000)	(0.009)	(0.006)	(0.012)	(0.009)	(0.535)	(0.741)
N	650	650	650	650	650	650	650	650

Note: Coefficient estimates from OLS regression with state fixed effects included and standard errors clustered by state reported in parentheses. $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$, for a two tailed hypothesis test. Sample includes each of the 50 U.S. states from 2001-2013.

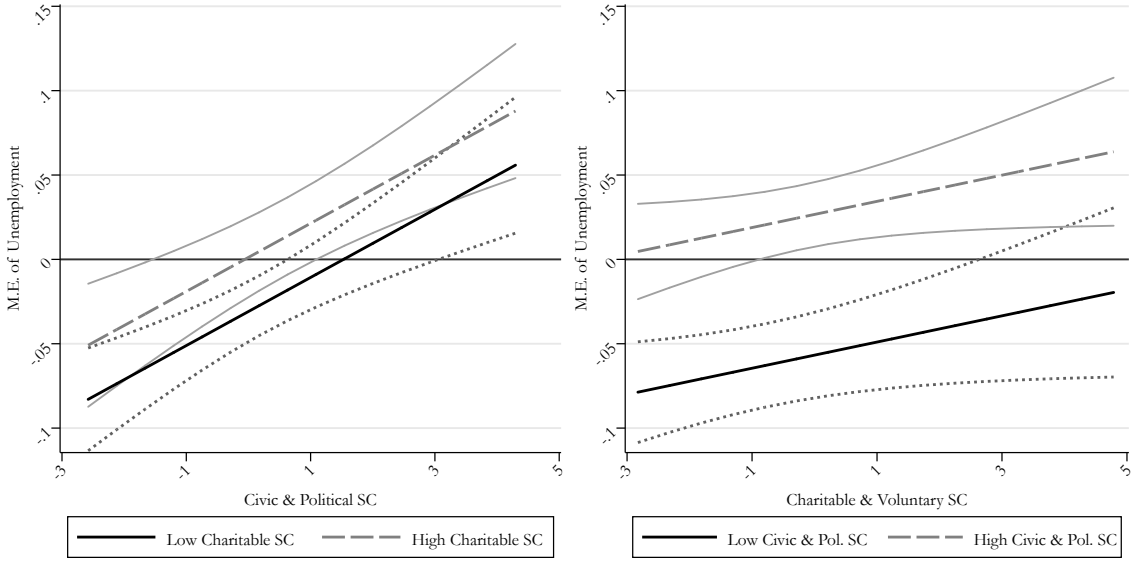
Table A.5: Interactive Models of UI Generosity, 2001-2013, with State Fixed Effects

	Spending		*Coverage*		*Benefit Amount*		*Duration*	
	UI Spend % GSP	**UI Spend Log**	**Insured Rate**	**Recipiency Rate**	**Weekly Benefit**	**Replacement Rate**	**Exhaustee Duration**	**Average Duration**
Unemployment Rate	0.000***	0.128***	−0.269***	−0.938***	0.008***	0.265***	0.059	0.684***
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.001)	(0.282)	(0.000)
Civic & Pol. SC$_{t-1}$	−0.000**	0.083*	−0.068	0.121	−0.005	−0.209	−0.112	−0.057
	(0.004)	(0.031)	(0.831)	(0.891)	(0.565)	(0.471)	(0.484)	(0.813)
C&P SC × *Unemp*$_{t-1}$	0.000***	−0.007	0.010	0.121	0.001	0.047	0.006	0.026
	(0.000)	(0.188)	(0.827)	(0.322)	(0.400)	(0.248)	(0.787)	(0.564)
Charit. & Vol. SC$_{t-1}$	−0.000***	−0.176***	0.176	−3.412***	−0.022**	−0.653**	−0.082	−0.089
	(0.000)	(0.000)	(0.389)	(0.000)	(0.003)	(0.009)	(0.470)	(0.680)
C&V SC × *Unemp.*$_{t-1}$	0.000***	0.026***	−0.072	0.475***	0.002	0.063	0.013	0.044
	(0.000)	(0.000)	(0.052)	(0.000)	(0.112)	(0.191)	(0.551)	(0.221)
Labor Force, log	0.000**	2.016***	−31.651***	41.824**	0.280	12.331	1.951	−6.487
	(0.001)	(0.000)	(0.000)	(0.007)	(0.156)	(0.073)	(0.479)	(0.137)
Gov. Liberalism$_{t-1}$	0.000**	0.002***	−0.010**	0.039**	−0.000	−0.004	0.001	0.009**
	(0.003)	(0.000)	(0.003)	(0.002)	(0.880)	(0.424)	(0.701)	(0.003)
Union Strength$_{t-1}$	0.000	0.020	−0.075	0.406	0.002	0.086	−0.050	0.030
	(0.287)	(0.074)	(0.401)	(0.199)	(0.396)	(0.282)	(0.469)	(0.686)
Reserve Ratio$_{t-1}$	0.000	0.023	0.591**	1.114	0.006	0.193	−0.096	−0.444**
	(0.196)	(0.340)	(0.009)	(0.099)	(0.407)	(0.432)	(0.533)	(0.002)
Real GSP, Log	−0.000	0.513*	22.501***	−7.112	0.408***	0.727	0.342	5.927*
	(0.066)	(0.010)	(0.000)	(0.174)	(0.000)	(0.783)	(0.744)	(0.015)
Δ*Income, real pc.*	−0.000***	−0.038***	−0.062***	−0.793***	−0.007***	−0.236***	−0.064***	−0.089***
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Ethnic Diversity	0.000***	0.118***	0.563***	2.460***	0.034***	1.065***	0.214*	0.155
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.023)	(0.253)
Constant	−0.005***	−33.979***	214.350**	−689.748**	−6.969*	−241.965*	−27.402	20.701
	(0.000)	(0.000)	(0.007)	(0.003)	(0.013)	(0.010)	(0.532)	(0.750)
N	650	650	650	650	650	650	650	650

Note: Coefficient estimates from OLS regression with state fixed effects included and standard errors clustered by state reported in parentheses. $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$, for a two tailed hypothesis test. Sample includes each of the 50 U.S. states from 2001-2013.



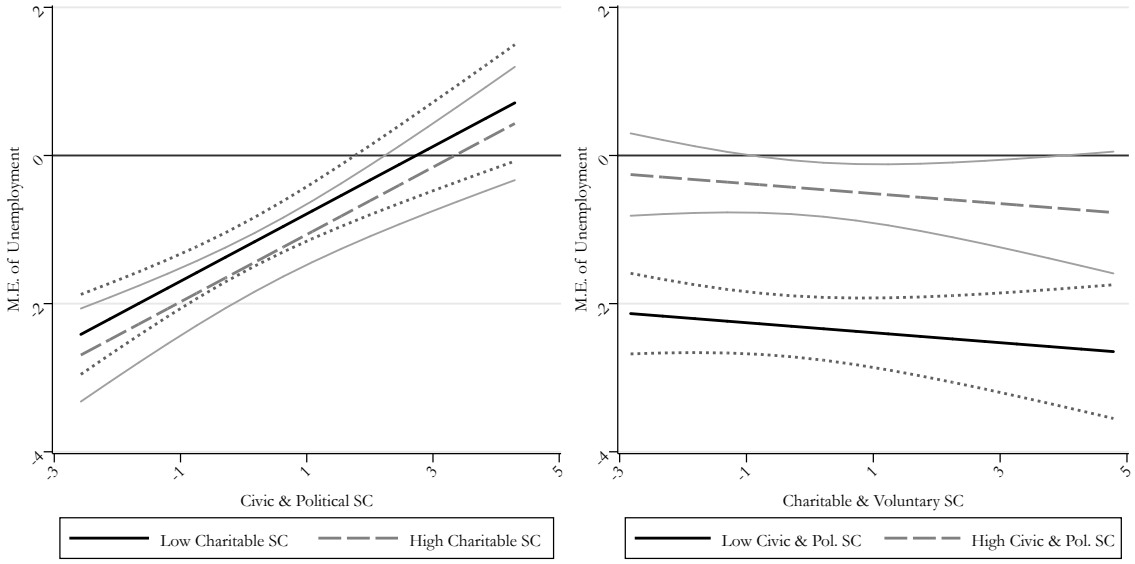
(a) UI Benefit Spending, % of GSP



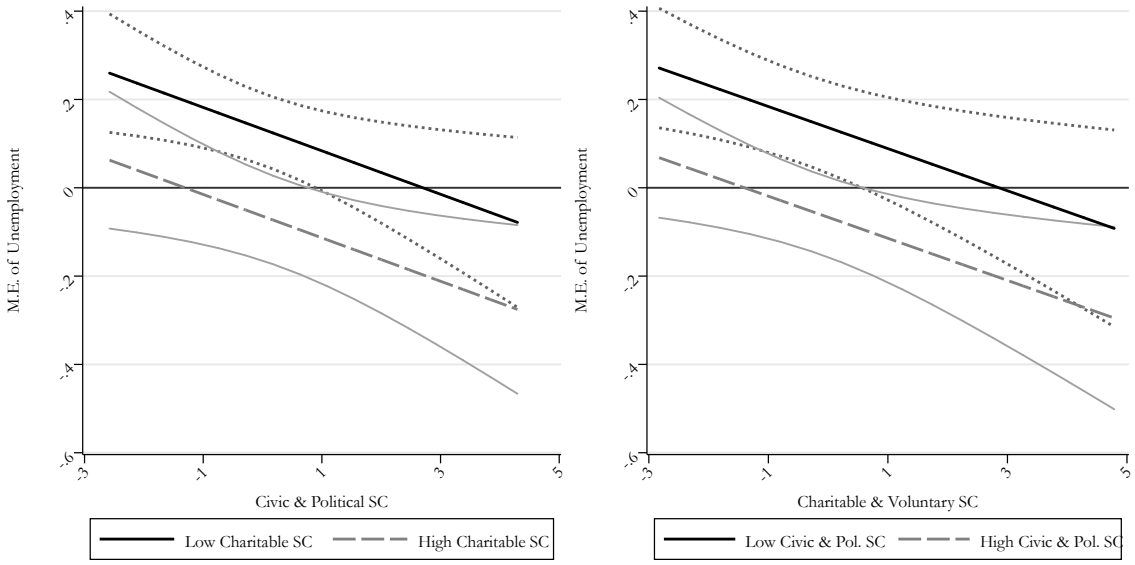
(b) UI Benefit Spending, log real $

Figure A.1: Short Run Marginal Effects of Unemployment on UI Benefit Spending

Note: Each graph reports 95% confidence intervals for the indicated marginal effect estimates obtained using coefficients from models in Table 3.6 while holding all variables not labeled in the figure constant at their sample mean, including the lagged dependent variable term. "High" and "Low" values are defined by the variable sample mean plus or minus 2 standard deviations, respectively.



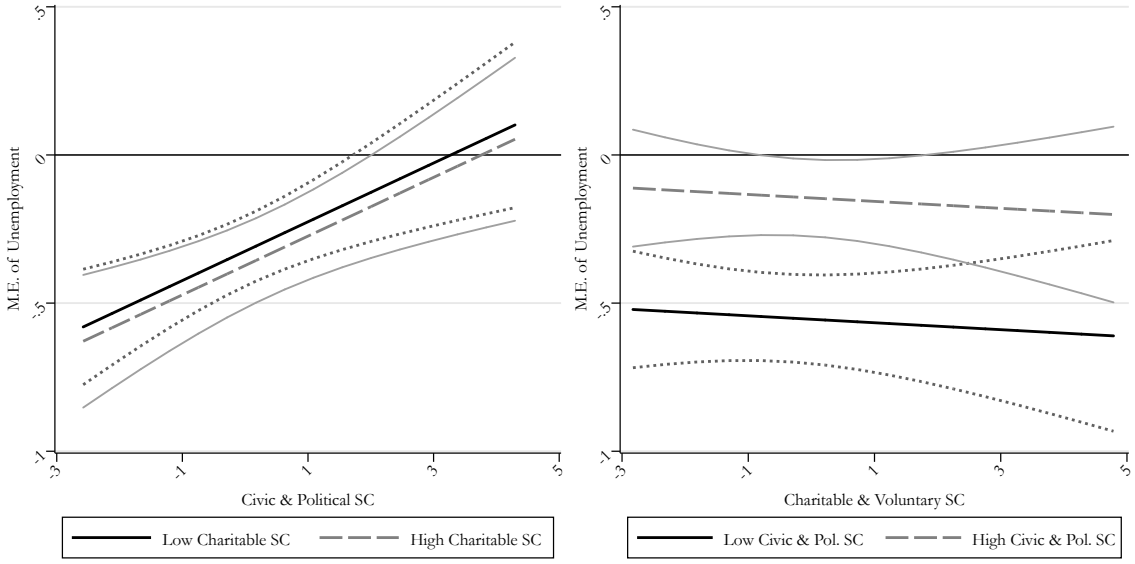
(a) Recipiency Rate



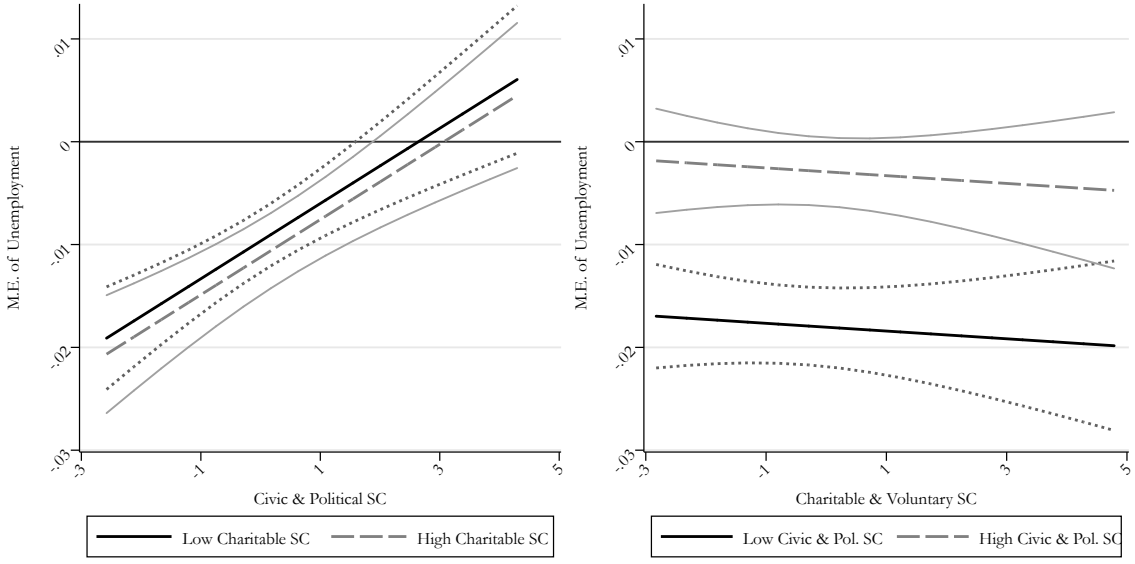
(b) Insurance Rate

Figure A.2: Short Run Marginal Effects of Unemployment on UI Coverage

Note: Each graph reports 95% confidence intervals for the indicated marginal effect estimates obtained using coefficients from models in Table 3.6 while holding all variables not labeled in the figure constant at their sample mean, including the lagged dependent variable term. "High" and "Low" values are defined by the variable sample mean plus or minus 2 standard deviations, respectively.

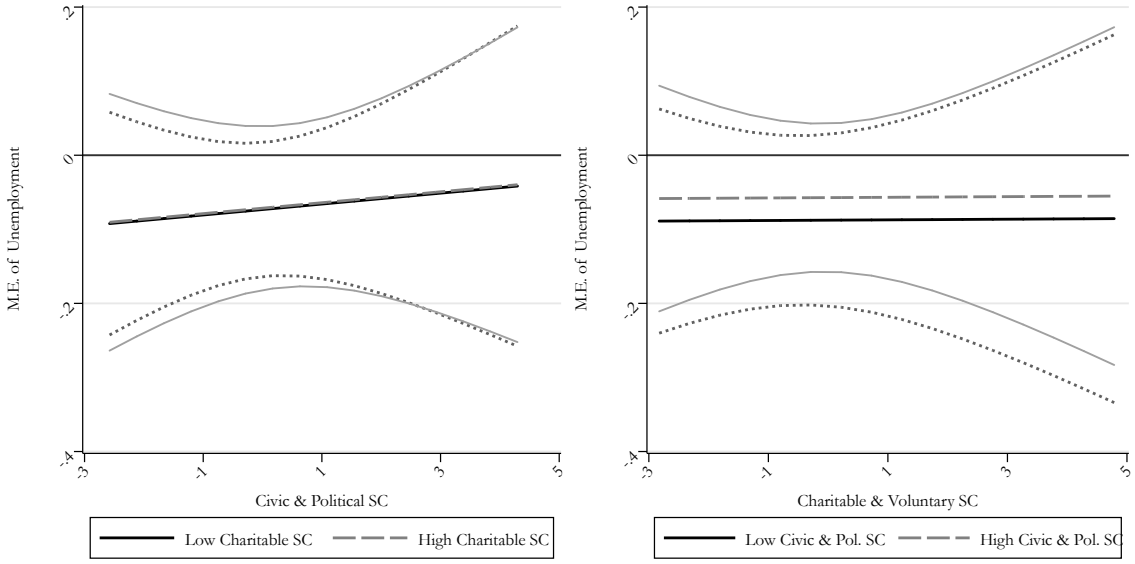


(a) Replacement Rate

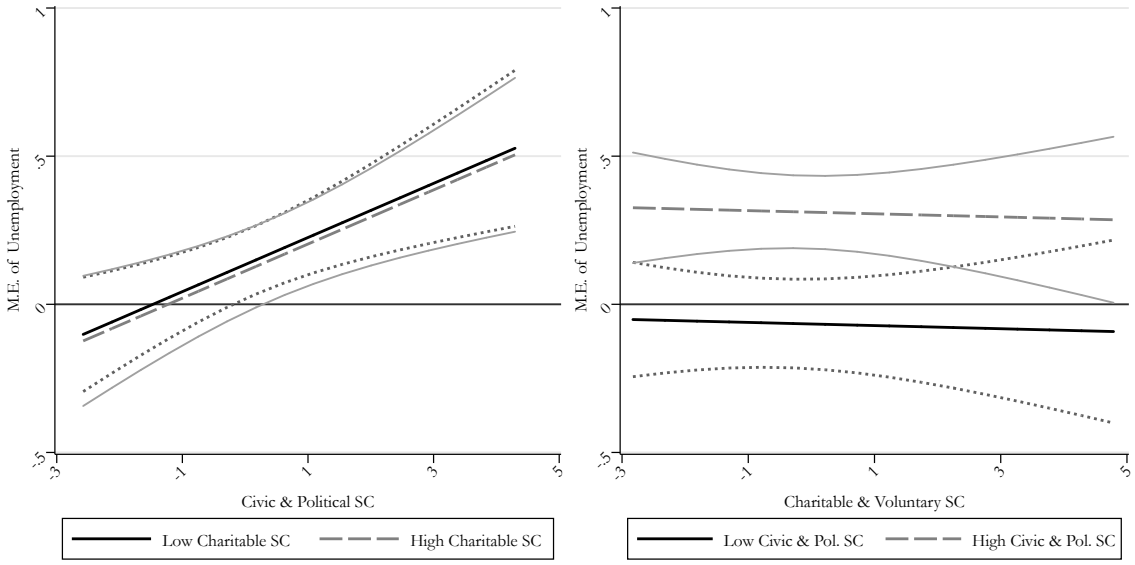


(b) Average Benefit Amount, Real Log $

Figure A.3: Short Run Marginal Effects of Unemployment on UI Weekly Benefit Amount Generosity



(a) Duration for Exhaustees



(b) Average Duration for All Unemployed

Figure A.4: Short Run Marginal Effects of Unemployment on UI Benefit Duration, in Weeks

Note: Each graph reports 95% confidence intervals for the indicated marginal effect estimates obtained using coefficients from models in Table 3.6 while holding all variables not labeled in the figure constant at their sample mean, including the lagged dependent variable term. "High" and "Low" values are defined by the variable sample mean plus or minus 2 standard deviations, respectively.

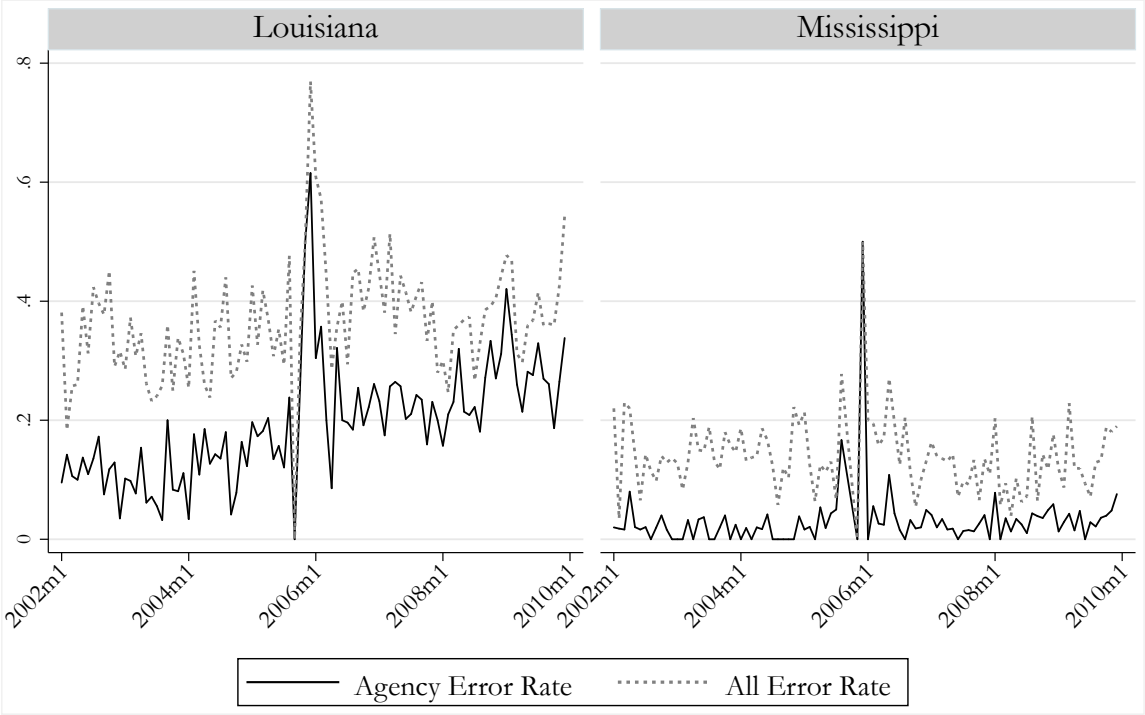


Figure A.5: All Errors and Agent Errors in Louisiana and Mississippi, 2002-2010

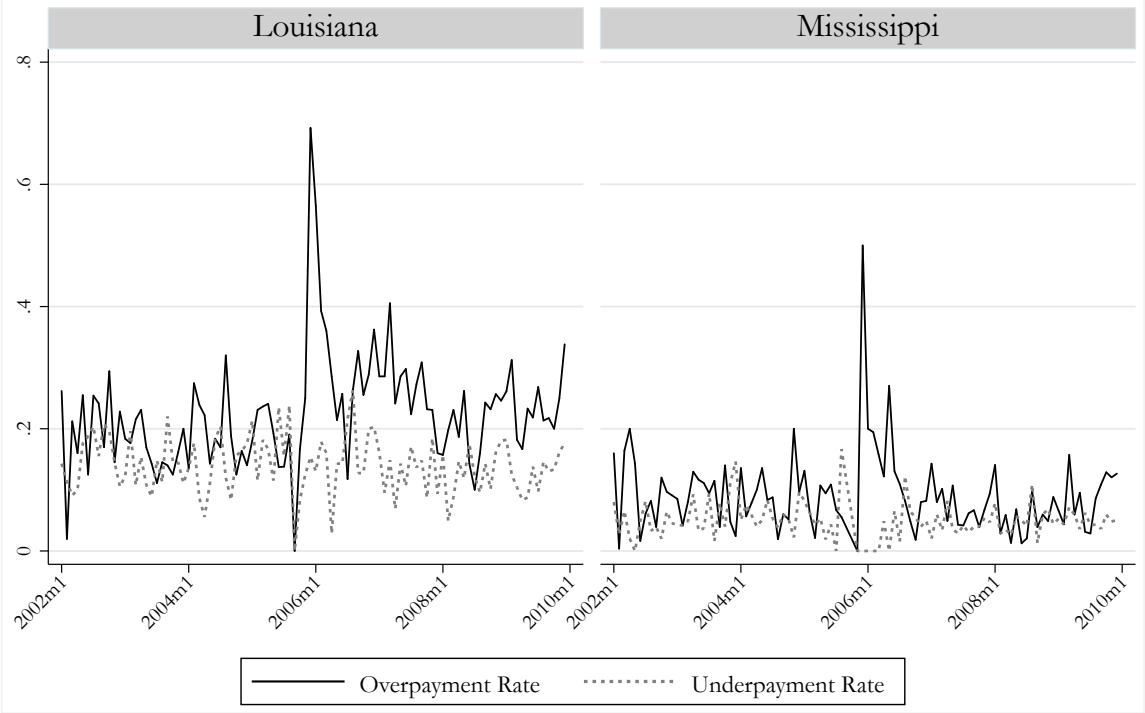


Figure A.6: Overpayment and Underpayment Rates Louisiana and Mississippi, 2002-2010

B. APPENDIX: ADMINISTRATION OF UNEMPLOYMENT INSURANCE IN THE UNITED STATES

B.1 Additional Nomenclature

ALP	Acceptable Level of Performance
BAM	Benefit Accuracy Measurement
BQC	Benefit Quality Control
CPS	Current Population Survey
DCA	Denied Claims Accuracy
DOL	Department of Labor
EB	Extended Benefits
ESI	Economic Security Index
ETA	Employment Training Administration
EUC	Emergency Unemployment Compensation
FUTA	Federal Unemployment Tax Act
IPIA	Improper Payment Information Act
IRS	U.S. Internal Revenue Service
OASDI	Old Age, Survivors, and Disability Insurance
OUI	Office of Unemployment Insurance
PCA	Paid Claims Accuracy
SSA	Social Security Act
SQSP	State Quality Service Plan
SWA	State Workforce Agency
UA	Unemployment Assistance
UB	Unemployment Benefits
UC	Unemployment Compensation
UCFE	Unemployment Compensation for Federal Employees
UCX	Unemployment Compensation for Ex-Service Members
UI	Unemployment Insurance

B.2 Introduction

The United States unemployment insurance (UI) program was created by the Social Security Act (SSA) in 1935 to serve multiple objectives. First, the program was meant to provide short term relief in the form of income security to the involuntarily unemployed. Second, the program was intended to provide a macroeconomic income-smoothing function across periods of economic expansion and contraction. Lastly, the program was meant to stabilize unemployment by distributing the costs of the program by responsibility for layoffs.

The present structure of UI also reflects not only these multiple goals, but also the compromises made between interested groups. First, to ensure passage of the Social Security Act (SSA) in Congress, states were granted substantial autonomy over many aspects of UI administration while Congressional legislation and regulations set minimum guidelines for program rules and eligibility requirements. In administering UI, each state workforce agency (SWA) balances the formal or informal influence of a legislature, UI advisory boards, businesses, and labor organizations, while seeking to maintain support of their constituency and court systems. The 53 UI programs in existence today vary in their administrative structure, the sectors covered, qualifying requirements, eligibility rules, disqualification rules, weekly benefit amount, waiting period prior to first payment, duration of benefit payments, seasonal provision, and their financing structure (Blaustein 1993). Further, there exists substantial heterogeneity in administrative quality and financial management.

The second defining compromise affected the funding of UI, and was made to appease business interests in the initial passage of the SSA. Funding of the regular UI system is a complex tax-credit scheme, paid mostly by employers and

supplemented by federal funds under specific circumstances. Employers pay two taxes: one into to a state account at a tax rate determined by their "experience rating," and one variable tax-rate into a federal account which provides administrative funds, grants and loans to states, and certain benefits payments. Basing tax rates on employer experience was initially necessary to gain sufficient political support from employers, and continues to incite disagreement today (Becker 1981; O'Leary and Wandner 1997). The key issue is this: because employers' tax rates are directly determined by their experience with layoffs in the past, incentives exist for employers to provide false evidence, to appeal UI determinations, and to reorganize businesses to evade accurate experience-rating. Labor groups have historically opposed experience rating, arguing that the system encourages employers to restrict employee benefits rights and to unjustifiably challenge claims to keep charges and tax rates down (O'Leary and Wandner 1997). Because each program is separately administered, business and labor influences engage at the state level. The terms of the experience-related tax formula and benefit determinations are decided by each state, the result of which is 53 unique financing systems.

These two defining features of the UI system have contributed to variation in almost every aspect of program eligibility and benefit rules, administrative quality, and financial solvency across the U.S. states and territories. The following sections of this chapter highlight some of the most important features of state programs: financial management and taxation, generosity of benefits, and quality of administrative performance. In recent years, in the context of the great recession, these different aspects of the UI programs have become important in different and predictable ways. Ultimately, UI is first and foremost an insurance program subject to fundamental actuarial rules.

B.3 Current State of Unemployment Insurance

Each U.S. state, the District of Columbia, the Virgin Islands, and Puerto Rico administers its own UI program. Variation in these 53 sub-national UI programs can be summarized along four dimensions. Each program varies in (1) financial solvency and tax structure, (2) the generosity of benefits, and (3) the quality of administrative services. Also, the (4) nature of demand for unemployment compensation varies across states, and this has important implications for the administrative quality and generosity of state UI programs. The following sections of this appendix will first summarize in greater detail how the national UI system operates, and will continue on to summarize state and regional variation along these broad categories.[1]

An notable feature of the UI system is the tendency of states within regions to follow different trends with respect to certain outcomes of interest. In this appendix, I will identify some of these trends by identifying differences between the four major geographic regions within the U.S., but the analysis presented here cannot fully explain these trends.[2] To summarize, the Northeast U.S. tends to rank highly in various generosity measures and highly in most administrative quality measures, with the exception of timeliness in first-payment promptness. The South tends to rank low across all generosity and administrative quality measures. The Midwest and West regions follow generally the same trends over time, falling between the northeast and south. However, because the outputs used as measures in this chapter are a function of policy and economic conditions, the determinants of these trends are not identified here and direct comparison of certain outcomes

[1]For the remainder of this chapter, I consider the 50 US UI programs and the District of Columbia, and I exclude the Virgin Islands and Puerto Rico from the analysis.

[2]The four regions referred to include the Northeast, West, Midwest, and South, and their definitions are included in section B.8.1.

should be made with care. What is clear, however, is that UI programs across the U.S. regions have demonstrated substantial differences in generosity and quality performance outputs.

B.4 Administration of Unemployment Insurance

The UI system is set up such that the federal government retains essential power and oversight on certain rules and aspects of administration. Generally, the federal government sets minimum standards for eligibility and benefit rules and administrative quality, and it is the responsibility of the states to (1) ensure that state legislation and program rules conform to the minimum standards set by federal legislation and to (2) comply with said laws. The federal government also plays a roll in lending additional funds to states as necessary, in offering extended or emergency benefits if states trigger specified high unemployment levels, and finally, the Department of Labor (DOL) conducts ongoing reviews to ensure administrative quality in the states. There has historically existed tension between the states and federal government over the management of funds and certain rules governing UI. The implications of this federal-state partnership can only be understood after a discussion of how funds are collected and distributed, and the enforcement mechanisms available to ensure compliance and conformity.

B.4.1 Funding

For the purposes of financing, the UI system can be decomposed into three parts: state administration costs, benefit payments, and other Department of Labor administration expenses. General Department of Labor expenses, including all Employment Training Administration and Office of Unemployment Insurance administration costs are funded by the federal government general revenue. The other categories are each funded through separate means.

States administer payment of (1) regular state UI unemployment compensation, (2) Unemployment Compensation for Ex-Service Members (UCX), (3) Unemployment Compensation for Federal Employees (UCFE), as well as (4) payments made through Extended Benefits (EB) or Emergency Unemployment Compensation (EUC) programs. Although the actual benefit checks are issued by states, the funds for each of these benefit tiers are different. The first of these benefit payment types, regular state UC, is funded by the states. UCX is funded by the various branches of the military, the National Oceanographic and Atmospheric Administration, and the U.S. Public Health Service. UCFE is funded by the various federal agencies. EUC and EB are funded in a more complex manner, to be discussed below.

B.4.1.1 Regular State Unemployment Compensation

Regular unemployment compensation benefits are funded by states' unemployment insurance tax, typically collected through an experience rating system. Federal law stipulates that this unemployment insurance tax be collected on the first $7,000 in eligible wages, a figure that has not changed since the early 1980s. Most states have elected to use a higher taxable wage base, but this is not a federal requirement. In 1990, 16 states retained the minimum taxable wage base, but by 2010 only five states retained the minimum base of $7,000 (US Department of Labor 2016).

At inception, the social security tax rate and wage base was comparable to the UI taxable wage base and tax rate. In 1938, UI and the Old Age, Survivors and Disability Insurance (OASDI) programs were funded through a tax on the first $3,000 of eligible wages. Beginning in 1972, the OASDI taxable wage base has been linked to the National Average Wage Index with a more constant tax rate applied.

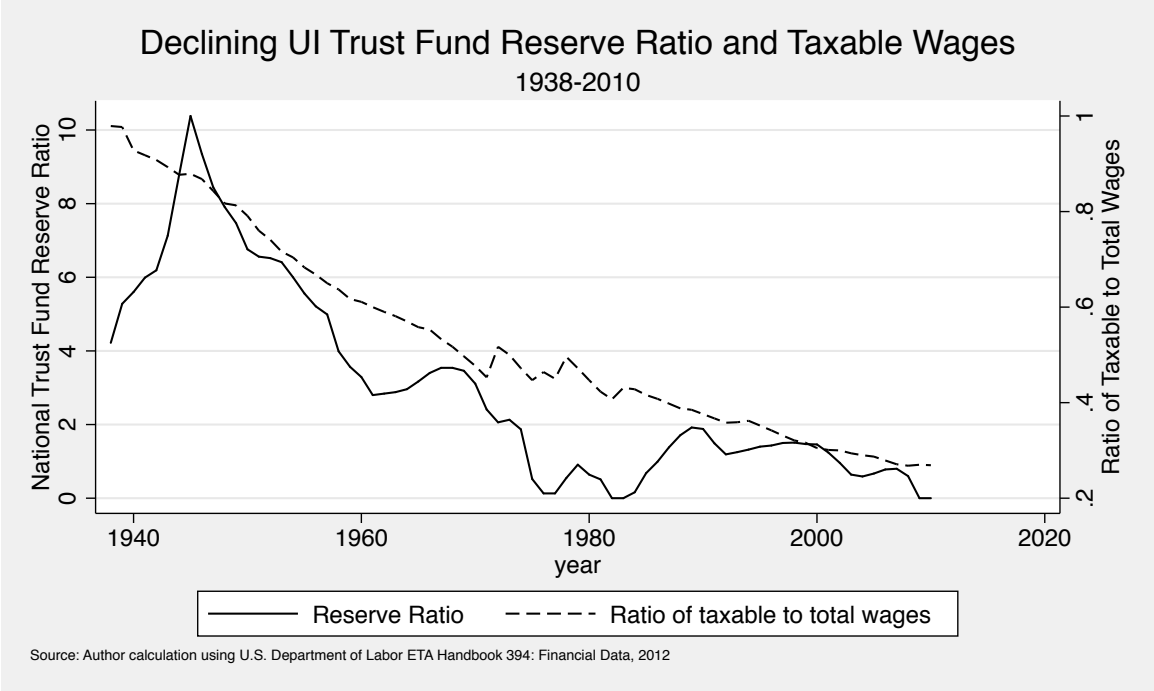


Figure B.1: Reserve Ratio

States' UI programs, however, are not required to index their taxable wage base, though some states choose to do so. To maintain financial solvency while retaining a constant nominal taxable wage base, states must increase UI tax rates, which is politically challenging. The alternative is to restrict benefit payments or recipiency. Failure to increase either the UI tax rate or the taxable wage base may explain much of the financial strain state programs are experiencing, and may perhaps contribute to declining recipiency (recipiency rates will be discussed in a following section).

Historically, state contributions collected in excess of benefit payments have been held by the U.S. Treasury in a trust fund account for each state. In times of economic contraction and high unemployment, states were meant to draw on their trust fund accounts and recover the balance with greater contribution rates in

times of expansion. State UI trust funds were designed to meet the objective of UI to smooth income across business cycles and prevent increases in UI taxes during times of high unemployment.

The net trust fund balance for all state accounts as a percent of covered wages is shown across time in Figure B.1, as is the ratio of taxable wage base to total wages. The important thing demonstrated by this figure is the decline in the capacity of the UI system to play a role in providing economic stability. Over the decades, states have contributed less and less to their trust fund accounts relative to total wages, thus savings in the system has declined. This is partly the result of state tax cuts made during the economic recoveries of the mid-late 1990s and mid 2000s, which have limited revenue for the UI systems and prevented trust fund balances from recovery (Vroman 2011). Increasingly, current contributions have been used to cover current benefit payments. In recent years, many states' trust fund balances have fallen below zero. Negative balances are possible through the extensions of loans from the Federal government to fund regular UI benefit payments.

In recent decades, contributions to the UI program have not exceeded benefit payments by a significant margin. Figure B.2 demonstrates this trend using totals for all state UI contributions (through state UI taxes) and all regular state benefit payments as a percent of total wages, these data are produced by Employment Training Administration (2016). Recession periods, as defined by the Bureau of Economic Analysis (2012), are denoted by the vertical grey columns. Note that not since the 1980s have contributions substantially outpaced benefit payments.

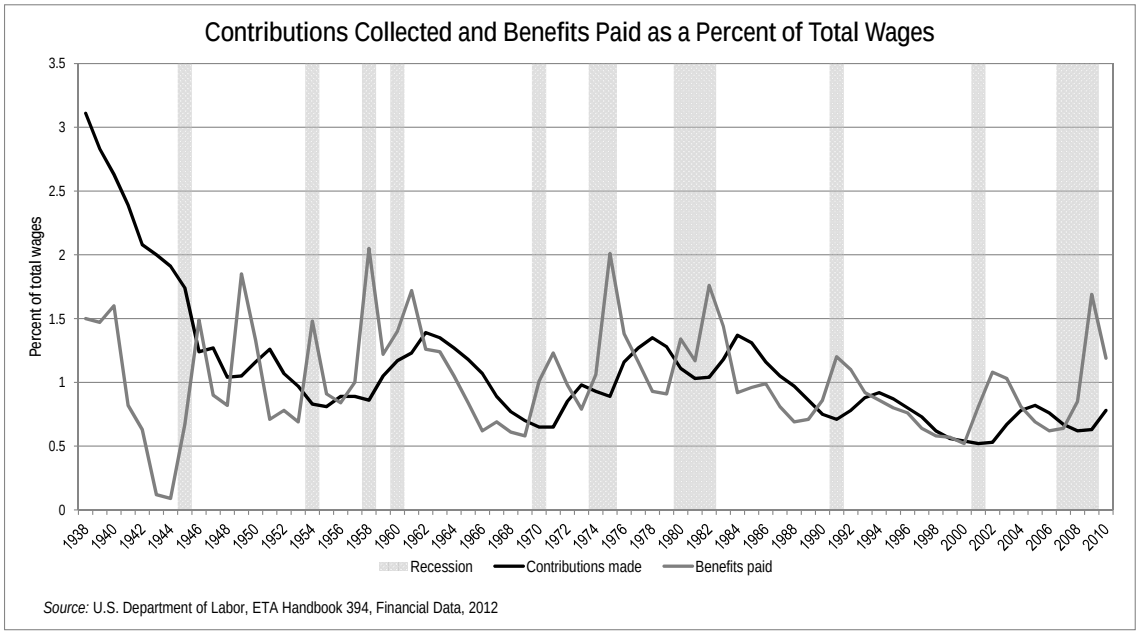


Figure B.2: Contributions Collected and Benefits Paid in Regular State Unemployment Insurance

B.4.1.2 Emergency and Extended Unemployment Compensation

In times of exceptionally high national or state unemployment, additional tiers of unemployment compensation may be triggered. The Extended Benefits (EB) program is triggered when states experience high unemployment (the definition of this standard has been subject to change) and allows for the Federal government to contribute up to 50% of the cost of 13 weeks of unemployment compensation. These additional weeks of UC may be claimed only after a claimant has exhausted their state's regular unemployment compensation, the typical maximum benefit allowance under regular UC is 26 weeks. EB is a perpetual program that does not require reauthorization by Congress, however, the definition of the look-back period for the EB "high unemployment" trigger may result in the failure of states to qualify for EB status if unemployment remains at high levels for

multiple years. This definition of the EB trigger is subject to change, and it also has the effect of ending EB despite continued high unemployment levels within state economies.

When national unemployment levels are sufficiently high, Congress may choose to pass Emergency Unemployment Compensation (EUC) legislation allowing for additional weeks UC or benefit amounts in all states, though states will fall within multiple tiers of benefit amounts depending on local economic conditions. These additional benefits are fully funded by the federal government, and all EUC benefits cease when authorization expires. For a demonstration of the claims made under the different tiers of UC from January 1986 through May 2012, see Figure B.3. Note that the measures in this chart are simply counts of claims made, and are not weighted by any client or population measure. This figure was adapted from its original source authored by the US Department of Labor (2016).

The important thing to note about the different tiers of UC is the complexity inherent in the system. Each SWA is responsible for determining eligibility and administering payments under all tiers of benefits. It is reasonable to expect that increased claims volumes and the requisite adaptation to the administration of these multiple tiers will have an effect on local state service quality. It is a theoretically interesting question whether some states are better able to adapt to greater and/or more complex work load and what factors affect this ability to adapt or learn, the recent years of claims experience in the UI system has provided an example of such variation in work load.

B.4.1.3 State Administration

Funding for the administration of state UI programs is provided through a small federal payroll tax collected by the IRS according to the terms of the Federal

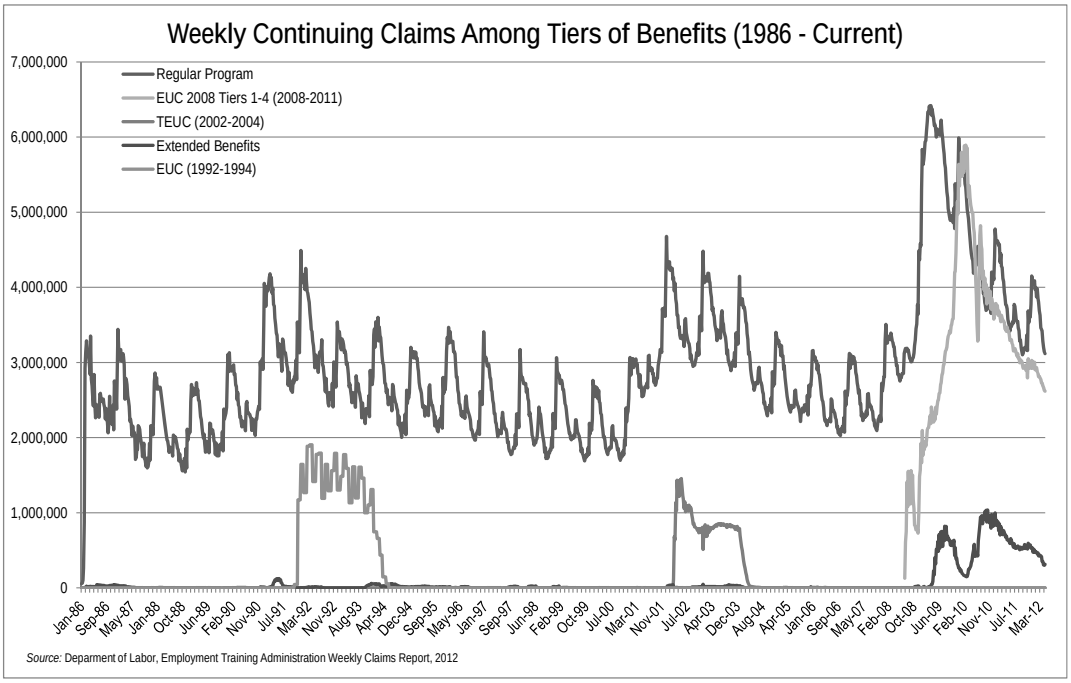


Figure B.3: Weekly Continuing Claims by Tier of Unemployment Compensation

Unemployment Tax Act (FUTA). These funds are then redistributed to the states according to anticipated need. This award of grants for administration from the federal government constitutes a key enforcement mechanism used to ensure administrative compliance, conformity, and quality across the states.

State workforce agencies (SWAs) apply for grants to fund the administration of UI programs once a year by submitting a State Quality Service Plan (SQSP) to the Department of Labor. These SQSPs include a formula defined by the DOL that uses past financial and claims details to estimate the amount of monies required for proper administration of the state UC program. The SQSPs also include a narrative written by the SWA addressing goals for administrative quality improvement and action plans for addressing past quality issues. If a state has failed to meet acceptable levels of performance as delineated by the DOL, the annual SQSP must include a corrective action plan to address each issue. The bottom line is this: costs of state UI administration are covered by grants from the federal government, funded by FUTA payroll taxes paid by employers, but these grants are contingent on state compliance and conformity with federal UI law and regulations.

B.4.2 Conformity and Compliance

To ensure that states comply with federal law governing UI, the Department of Labor produces a bi-annual review of state laws (for a summary of certain state provisions, see US Department of Labor 2016). In such a case that a state is out of conformity with the SSA or the FUTA, the two major pieces of federal legislation concerning UI, there are a number of possible steps that may be taken to reinstate conformity. First, if FUTA law is violated, FUTA tax credits granted to employers may be revoked, meaning that employers would be subjected to a substantially higher tax rate. Employers earn a FUTA tax credit for any taxes paid into a state

unemployment insurance account *if the state program is in conformity.* Therefore it may be assumed that employers themselves are advocates of conformity with federal regulation. Second, funding for the administration of UI programs is distributed by the DOL, subject to conformity with federal regulations governing the financing, eligibility, and administration of UC programs. Legally, it is possible for the Department of Labor to restrict administration grants from states, though this option has never been implemented to date. Ultimately, the federal government has the option of suing the state or state workforce agency for failure to comply with federal law and pursue a resolution through the federal court system. This course of action has been taken on a number of occasions (see O'Leary and Wandner 1997, pages 562-571 for a discussion).

In addition to conformity with federal laws, states must also comply with their own state-laws governing UI. In the case of compliance violations, the federal government has two key enforcement mechanisms, though generally the Department of Labor's Office of Unemployment Insurance plays a collaborative role with SWAs in determining the appropriate corrective action. First, in the case of egregious violations, the Department of Labor has, again, the threat of revoking administration funds. Second, the DOL has the option of requiring written corrective action plans. These corrective action plans are typically included in a state's annual SQSP. To date, no state has been denied funding for a failure to comply with administrative quality standards, but corrective action plans are frequently required of states to ensure improvement. These plans can be costly to develop and implement, and constitute a burden on the states. Though generally SQSPs are treated as an opportunity for communication between the SWAs and the DOL, states with chronic violations may be subject to a more intrusive DOL investigation. In addition, claimants or third parties have the right to sue states

and state workforce agencies for failure to comply with state law or federal law. Although this option is outside of the direct responsibility of the Department of Labor, it may in fact pose a sufficient threat to ensure state compliance.

Thus, by playing some role in almost every aspect of the funding of unemployment insurance, the DOL is able to ensure conformity and compliance through various means. Additionally, actual or threatened suit action by claimants or third parties may also pay an important role in the administration of UI. Having now introduced the essential rules and characteristics of the finance and administration of the U.S. UI system, the following sections will consider outcomes of the UI program.

B.5 Program Generosity

The essential purpose of UI is to insure against risk of income loss from unemployment. However, there is substantial room for states to restrict or expand the generosity of payments made in this purpose, and there are a number of different output measures which offer insight into the variation in generosity of UI program across the U.S. Generosity is a multi-faceted concept and its measurement should thus reflect the multiple aspects.

Social insurance generosity has been measured by some in the comparative politics literature as the replacement rate, which is generally the percent of wages replaced by program benefits (for a discussion, see Scruggs 2006). This is a decent indicator of the generosity of benefit payments, and it is superior to alternative monetary measures such as program spending per capita or as a percent of state income. However, the replacement rate remains an incomplete measure because it fails to capture the breadth of program generosity. One may think of the replacement rate as an indicator of how generous social insurance program benefits

are *for those who receive them*. My analysis here goes beyond this one-dimensional measure of generosity to capture the breadth and duration of generosity as well.

The following sections advance upon the basic measurement of generosity as the replacement rate and consider alternative measures: the maximum benefit allowance ratio, recipiency rates, and duration. Though some comparative studies have multiplied the average replacement rate by the recipiency rate to generate a "generosity index" (Vroman 2007), this chapter refrains from considering more sophisticated generosity indices.

B.5.1 Benefit Levels

A straightforward and popular measure of social program generosity is simply the level of benefits provided to claimants. I consider two alternative measures within this category. First, the average weekly benefit ratio, or the replacement rate, reflects the generosity of the program to the average recipient. I also consider the maximum benefit ratio, which indicates the maximum potential generosity of a state UI program.

B.5.1.1 Average Weekly Benefit Ratio, or the Replacement Rate

A common measure of social wage-replacement or insurance program generosity is the ratio of benefits to prior wages, this is referred to as the replacement rate. This measure indicates the proportion of former wages replaced by social program benefits. A higher replacement rate represents more generous program benefits. Figure B.4 plots regional averages of the actual regular state UC replacement rate from 1938-2011, using data from Employment Training Administration (2016). The average replacement rate is calculated here as the ratio of the average weekly benefit amount divided by the average weekly wage in eligible employment. The national replacement rate since 1938 has averaged about .356,

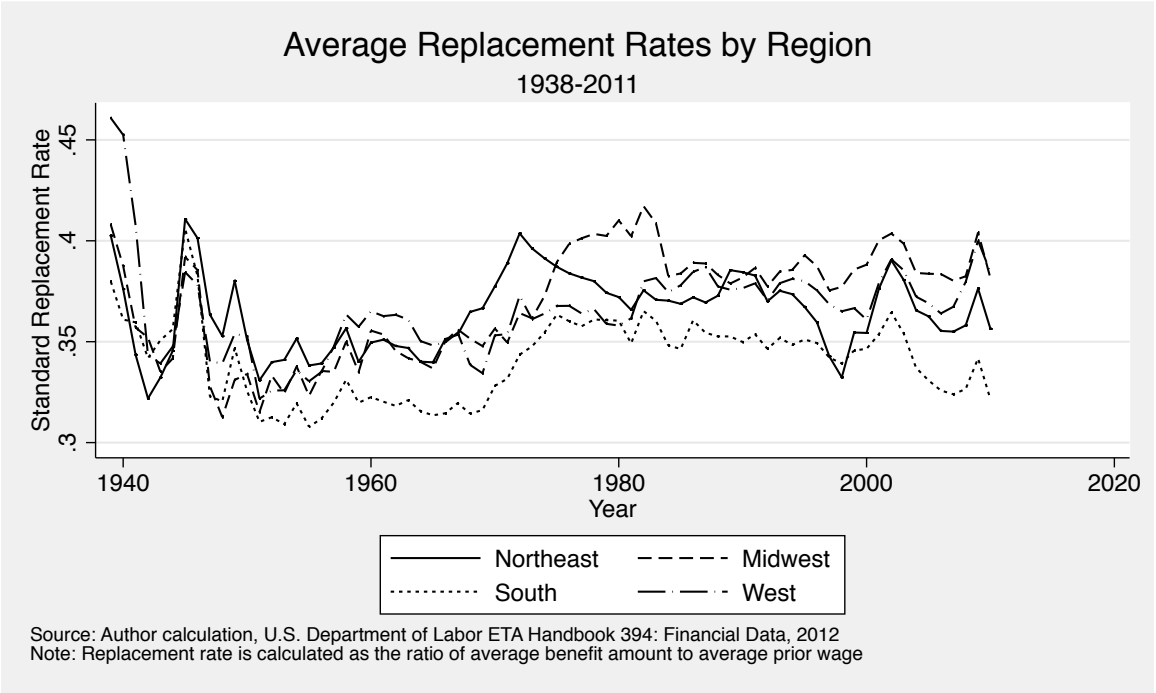


Figure B.4: Average Replacement Rate, by Region

which means that across the U.S. states UI benefits have equalled about 36% of average wages. This is not a direct measure of state policy, but is rather a measure of UI program outputs, and it is important to note that this figure is derived from macro economic data and not from individual claims reports.

Figure B.4 shows that since the 1950s, the South has tended to experience the lowest average replacement rates of the U.S. regions. Also, it is interesting to note that these regional averages vary over time in slightly different patterns. Figure B.5 lists the states with the highest and lowest average replacement rates over the period. State average replacement rates range from a low of 25.7% in Alaska to a high of 42.6% in Hawaii, which also points to the substantial variation within geographic regions as both Alaska and Hawaii are included in the West.

Highest Long Term Replacement Rates			Lowest Long Term Replacement Rates		
Rank	State	Average Weekly Benefit Ratio	Rank	State	Average Weekly Benefit Ratio
1	Hawaii	0.426	42	Texas	0.329
2	Utah	0.419	43	Indiana	0.328
3	North Dakota	0.410	44	Arizona	0.322
4	Rhode Island	0.406	45	New York	0.322
5	Wyoming	0.405	46	Missouri	0.318
6	Idaho	0.405	47	Delaware	0.318
7	Iowa	0.400	48	Alabama	0.318
8	Kansas	0.393	49	California	0.315
9	Wisconsin	0.389	50	Tennessee	0.315
10	Pennsylvania	0.388	51	Alaska	0.257

Source: Author calculation, U.S. Department of Labor, Employment Training Administration, Handbook 394 Financial Data, 2012

Figure B.5: Highest and Lowest Long Term Replacement Rates

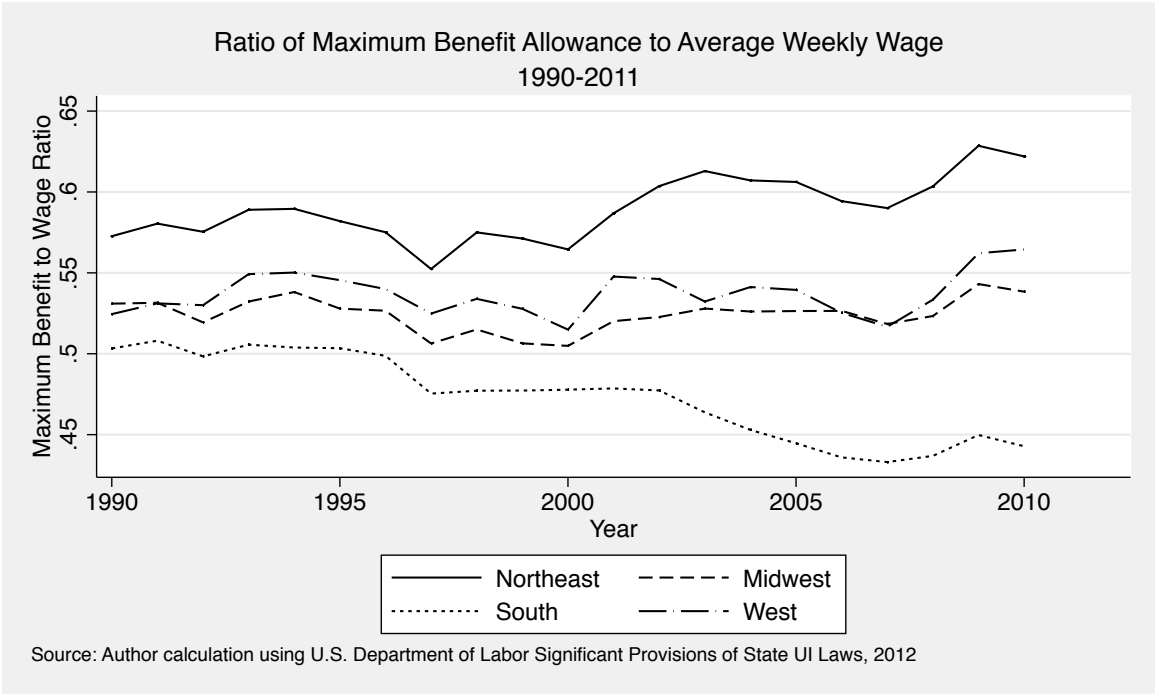


Figure B.6: Maximum Benefit Ratio, by Region

Highest Ratio			Lowest Ratio		
Rank	State	Maximum Benefit to Wage Ratio	Rank	State	Maximum Benefit to Wage Ratio
1	Massachusetts	0.796	42	California	0.417
2	Maine	0.722	43	Tennessee	0.415
3	Rhode Island	0.721	44	New York	0.413
4	Hawaii	0.675	45	Louisiana	0.409
5	Pennsylvania	0.649	46	Mississippi	0.406
6	West Virginia	0.644	47	Georgia	0.404
7	Arkansas	0.636	48	Missouri	0.384
8	Washington	0.635	49	District of Columbia	0.362
9	North Carolina	0.633	50	Alabama	0.361
10	Ohio	0.632	51	Arizona	0.348

Source: Author calculation using U.S. Department of Labor Significant Provisions of State UI Laws, 2012

Figure B.7: Highest and Lowest Long Term Maximum Benefit Ratios, 1990-2010

B.5.1.2 Maximum Benefit Ratio

In addition to the replacement rate as a measure of experienced generosity, the ratio of maximum benefit allowance to average wages is a useful indicator of the potential generosity of the UI programs. In practice, maximum weekly benefit allowances averaged $432 in 2010, compared to the average weekly benefit payment of $293. I define the maximum benefit ratio as the ratio of a state's maximum benefit cap (a direct policy measure) divided by average wages in a state in the same period, and I calculate this measure using data from the (Employment Training Administration 2016; US Department of Labor 2016). This measure reflects the generosity of a state's maximum benefit allowance relative to average wages. Whereas the replacement rate reflects actual payments relative to actual wages, the maximum benefit ratio indicates the potential generosity of programs as defined by state benefit allowance rules. Another crucial difference between the replacement rate and maximum benefit ratio is the availability of data for its

calculation; the maximum benefit ratio is only currently available from 1990.

Figure B.6 shows regional trends in the maximum benefit ratio and Figure B.7 lists the states with the highest and lowest average ratios over the period 1990-2010. It is interesting to note that the South again tends to have the lowest maximum benefit ratio over the period relative other states, that the Northeast has the highest over time, and that these regions appear to be moving in opposite directions on this measure. Also, several of the top or bottom ten states in terms of replacement rates (in Figure B.5) are also listed in the top or bottom ten in terms of their maximum benefit ratios in Figure B.7. For example, according to this measure, Hawaii is again ranked as more generous and California and New York tend to be less generous, on average. Although comparison of actual and potential benefit payment generosity is a useful introduction to the generosity of different states' UI programs, these measures do not capture all aspects of program generosity.

B.5.2 Recipiency

Not every unemployed person files a claim for benefits, and not every claim is paid. There are numerous ways a state can limit or expand program generosity to include or exclude applicants or potential applicants using eligibility or other administrative rules. Additional measures of program generosity should be considered. Therefore, I consider the recipiency rate, also called a take-up rate, as a measure of how broadly benefits are distributed across the citizen or client population. This measure is an indicator of the *breadth* of UI program generosity.

There are a number of different ways to measure a recipiency rate. The most common measure is simply the ratio of benefit recipients to total unemployment. Recipiency rates may also be understood as measures of program

effectiveness. If the mission of an unemployment insurance program is to provide income security to those who are unemployed, then one measure of program effectiveness should be 1) the extent to which unemployed citizens apply for UC and 2) the extent to which unemployed receive UC.

A Department of Labor sponsored report defines four common measures of unemployment insurance recipiency, each captures a slightly different aspect of programmatic recipiency:

1. **Standard Rate**: number of weekly claims for regular program unemployment insurance benefits, as a proportion of all unemployed workers
2. **All Programs Rate**: number of weekly claims for all program (regular, extended and federal) unemployment insurance benefits, as a proportion of all unemployed workers
3. **Standard Short-term Rate**: number of weekly claims for regular program unemployment insurance benefits, as a proportion of job losers unemployed less than 27 weeks; and
4. **All Programs Job Loser Rate**: number of weekly claims for all program (regular, extended and federal) unemployment insurance benefits, as a proportion of all job losers (Wittenburg et al. 1999).

An additional measure of the standard rate, used by Vroman (2009), utilizes weekly benefit recipients as the numerator, which has the effect of measuring actual recipiency as compared to a claimant rate. Each of these rates vary in their definition of the underlying population (the denominator) or in the definition of recipient (the numerator), and will therefore differently respond to macroeconomic conditions. The standard rate, for example tends to increase in times of economic contraction because the proportion of those unemployed classified as "job losers" rather than "job leavers" increases. Because job losers are the primary population targeted for benefits by UI programs, the recipiency rate will increase as the proportion of unemployed job losers increases. For such reasons, it has been

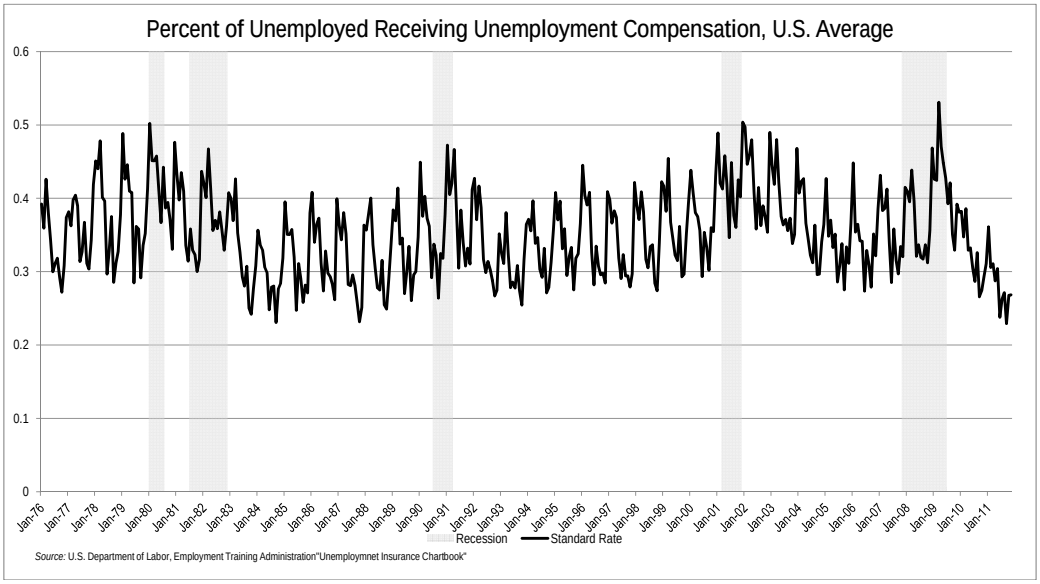


Figure B.8: Standard Recipiency Rate, National Average

suggested that recipiency rates only be compared across similar economic conditions (Wittenburg et al. 1999). The important point here is that macroeconomic conditions have an impact on UI program outputs.

The standard recipiency rate in the U.S. since 1976 has averaged .35, which means that, on average, around 35% of unemployed Americans claim regular state UC in a given month (this figure was calculated using data available from US Department of Labor 2016). Figure B.8 clearly demonstrates the responsiveness of the standard recipiency rate to the business cycle; not only are seasonal trends discernible, but the effects of economic contraction and expansion clearly affect the rate. This figure shows the national average standard rate, measured monthly, for the period 1976-2011, using data provided by US Department of Labor (2016). The decline in the standard recipiency rate in recent years is somewhat misleading because this rate considers only regular state UC and does not consider the proportion of unemployed collecting EB or EUC. The important thing to note

about this figure is that the UI recipiency is a function of economic factors as well as the policies and administrative rules of a state.

In addition to macroeconomic conditions, recipiency rates will be affected by a states industrial composition, benefit levels, and non-monetary and monetary eligibility rules. For example, in states with more stringent non-monetary eligibility requirements (i.e. strict separation rules), employers have an incentive to actively dissuade employees from making UI claims or to provide false information about the employee or separation reason as part of the UI claim process. The presence of stronger unions should also be expected to affect recipiency rates, perhaps by either pressuring states to extend coverage or by informing the unemployed of their eligibility for benefits. Vroman (2009) finds the primary cause of low recipiency rates to be individuals' ignorance of their eligibility for UC; many unemployed individuals do not apply for UC because they (wrongly) believe they are ineligible for benefits. The source of this (mis)information about eligibility is an interesting and politically salient question that merits future theoretical and empirical consideration.

Though recipiency rates do not directly measure administrative rules, it is the case with UI that not all administrative rules affecting eligibility or benefit payments are easily accessible for study. Such rules may be informal, inconsistently administered within states, or not well documented, as identified in site visits by (Wittenburg et al. 1999). Thus indirect measures of recipiency or generosity are required to compare state programs coverage and generosity, and more sophisticated empirical analyses can model these processes to better estimate the factors affecting these outcome measures.

It is worth noting that the denominator in some measures of recipiency is the number of unemployed in a state, this means that longitudinal comparison of

recipiency rates is contingent on a consistent measurement of unemployment. The Office of Unemployment Insurance does not itself administer unemployment measures, this is the task of the Bureau of Labor Statistics' Current Population Survey (CPS). Since the initiation of UI, the CPS has changed the methodology of measuring unemployment a number of times. For example, explicit attempts were made in the 1980s to better represent minorities in the CPS, with the effect of increasing estimates of unemployment (due to the heterogeneity of unemployment rates across minority groups). Therefore, some variation in recipiency rates over time may be attributed to CPS methodology advances, rather than changes in the UI program. However, research suggests that the change in measurement methodology is not the dominant factor determining the declining trend in recipiency rate in recent decades (Wittenburg et al. 1999). Also, recipiency rates that use applicant population as the denominator presumably do not have the same measurement problem.

B.5.2.1 State and Regional Trends in Recipiency

Figure B.9 clearly demonstrates the point that recipiency varies across the U.S. states and regions. This figure was generated using data provided by US Department of Labor (2016). Although each region seems to follow a similar trend in terms of annual fluctuations, it is interesting that the Northeast consistently has the highest recipiency rate of the four regions (revolving around 40%), the South has the lowest (around an average of 25%), and the Midwest and West have converged toward approximately the same rate over the past decade. Figure B.10 lists the highest and lowest average state standard recipiency rate for the period 1976-2010. Recall that the national average standard recipiency rate for the this period is about 35%. This figure demonstrates the notable spread in long term

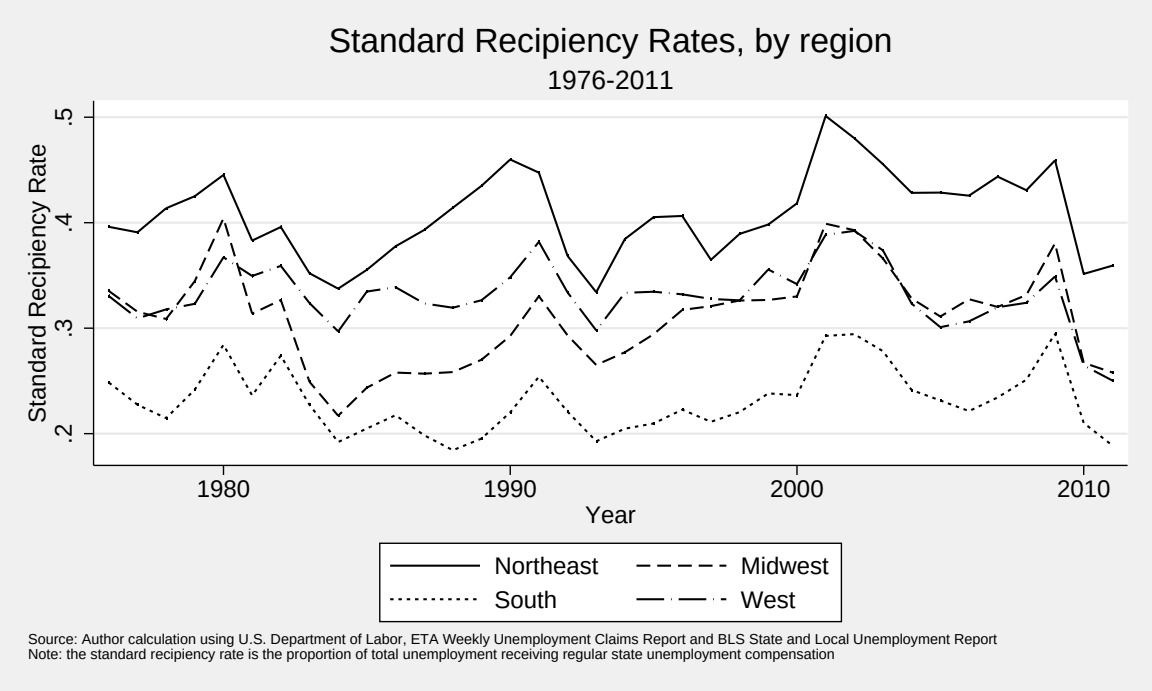


Figure B.9: Long Term Standard Recipiency Rate, by Region

recipiency rates; South Dakota has the lowest rate of 15.9% and Alaska has the highest rate at nearly 60%. These figures were generated using the weekly UI claims reports (US Department of Labor 2016).

B.5.3 Duration

Another measure of program generosity is the duration of benefit payments, which is the number of weeks of benefits paid to UC claimants. This aspect of generosity indicates how long benefits may be paid to claimants. States may be more or less generous in their policies governing eligibility duration as well as their determination of eligibility subject to those policies. For this reason, measures of state policies governing duration of benefit payments are inadequate measures of generosity. Claimants may be denied continued benefits due to non-monetary non-separation eligibility rules, these rules are difficult to measure and almost

Highest Rates			Lowest Rates		
Rank	State	Long Term Recipiency Rate	Rank	State	Long Term Recipiency Rate
1	Alaska	0.596	42	New Hampshire	0.222
2	Rhode Island	0.463	43	Mississippi	0.213
3	Connecticut	0.455	44	New Mexico	0.212
4	Massachusetts	0.446	45	Oklahoma	0.203
5	New Jersey	0.445	46	Arizona	0.199
6	Pennsylvania	0.442	47	Colorado	0.195
7	Vermont	0.437	48	Virginia	0.194
8	Wisconsin	0.424	49	Texas	0.185
9	Delaware	0.407	50	Florida	0.181
10	Hawaii	0.379	51	South Dakota	0.159

Source: Author calculation, U.S. Department of Labor, Employment Training Administration, Weekly Claims Reports, 2012

Figure B.10: Highest and Lowest Long Term Standard Rates, 1976-2010

impossible to compare due to differences in states' interpretation.[3] Therefore, an indirect measure of benefit duration is necessary to capture any informal or un-measurable stringency in the determination and administration of UC payments.

In most states, eligibility duration is uniform; the maximum duration of regular UC is generally 26 weeks. As of January 2012, only six states had a maximum duration of more or less than 26 weeks, all states rules fell between 20 and 30 weeks (US Department of Labor 2016). In a small number of states, however, eligibility duration may be extended in times of high unemployment, or subject to the claimants industry of employment or completion of approved training. In addition to the rules governing duration and eligibility, economic conditions will directly affect the job market and the duration of unemployment, thus affecting the experienced average duration of insured unemployment.

Figure B.11 demonstrates the trend in average duration by region from

[3]Non-monetary non-separation eligibility rules vary by state and include such requirements as the claimant must be available for work, must be actively searching for work, or must not reject a reasonable job offer. Claimants failing to meet these eligibility requirements, as determined by the state UI agency, are generally disqualified from continued claims.

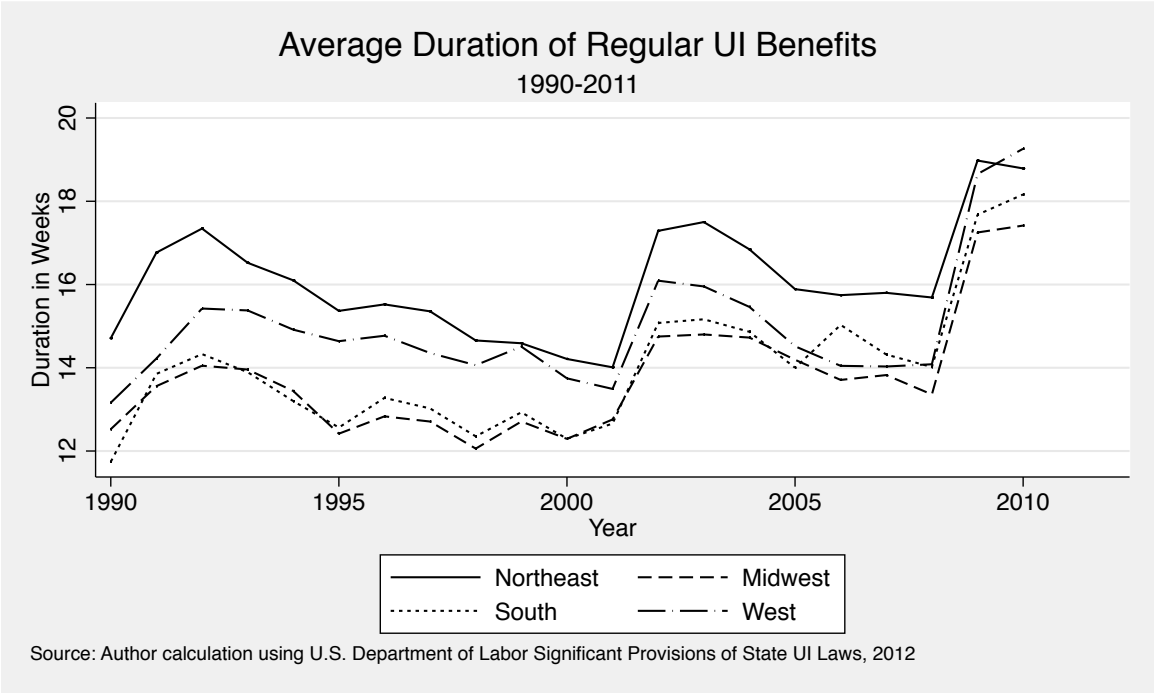


Figure B.11: Average Duration of Regular UI Claims, by Region

1990-2011. Average UC duration is calculated here as the number of UC weeks paid divided by the number of first-payments made in a period, this is an estimate of the average number of weeks compensated per initial claim. This figure was produced using data available from Employment Training Administration (2016) and US Department of Labor (2016). The average duration increase in recent years can be attributed to increased unemployment across the country over the same period. Although direct comparisons of average duration across U.S. states or regions are not a direct measure of program generosity, it is interesting to note that the Northeast again tends to rank highest across the period. A valid comparison of the generosity in terms of duration of state UC would control for the policy and economic factors discussed above. However, it is worth noting that the long term average duration of regular state UC ranges from a high of 17 weeks in the District

Longest Duration			Shortest Duration		
Rank	State	Duration of UC	Rank	State	Duration of UC
1	District of Columbia	17	42	Nebraska	12
2	New York	16	43	Idaho	12
3	Louisiana	15	44	South Carolina	12
4	New Jersey	15	45	Arkansas	11
5	California	15	46	Indiana	11
6	Alaska	15	47	South Dakota	11
7	Massachusetts	15	48	North Carolina	11
8	New Mexico	14	49	Georgia	11
9	Washington	14	50	Virginia	10
10	Illinois	14	51	New Hampshire	10

Source: Author calculation U.S. Department of Labor Significant Provisions of State UI Laws, 2012

Figure B.12: Highest and Lowest Long Term Average Duration of UI Claims

of Columbia to a low of 10 weeks in New Hampshire (as shown in Figure B.12, calculated using data available from Employment Training Administration (2016) and US Department of Labor (2016)).

B.6 Administrative Performance Quality

Similar to generosity, administrative quality is not uniform across all states or regions, or eligibility rule. Certain components of a UI claim or payment will be more or less prone to timelines or accuracy concerns. The DOL is primarily concerned with with the accuracy and timeliness of eligibility determinations and benefit payments, but additional measures of administrative performance exist. The following sections will consider timeliness and accuracy of benefit payments and reemployment rates as outputs of the UI program that indicate public agency performance.

Before introducing the performance quality measures, however, a discussion of the different types of eligibility rules is needed because administrative

performance will likely vary across these types. Eligibility rules consist of two types: monetary and non-monetary. Monetary eligibility criteria consist of qualifying wage levels or employment duration, whereas non-monetary eligibility is determined by criteria such as reason for separation, work-search efforts, or denial of suitable work. These criteria are largely determined by each state program, federal rules governing eligibility criteria are minimal. Thus the quality of state programs with regard to the accuracy or timeliness of these rules can be difficult to compare because each state has it's own rules and de-facto interpretation.

In recent decades the process of determining monetary eligibility has shifted mostly to electronic verification and processing. Wage and other employment details reported by an applicant to the state workforce agency can be verified using national databases of new hires and payroll details. This has led to the automation of most (if not all) aspects of monetary eligibility determination, allowing little to no room for discretion on the part of the agent making the determination. Errors and time-lapses in monetary eligibility determinations should be much lower than those in non-monetary eligibility determinations because of this automated process, though errors do still occur.

Non-monetary eligibility rules allow for greater discretion on the part of agents (Rubin 1983), and may require subjective judgements about the claimant's work-search efforts or work-separation behavior. Thus, it is in the area of non-monetary determinations that errors are more common. States vary widely in their non-monetary requirements, most states have some rule governing separation cause; for example, voluntary work leavers are typically disqualified or must wait a period before re-qualifying for unemployment compensation. Variation in the complexity or stringency of state rules governing these non-monetary separation and non-separation eligibility rules are certain to affect some measures of

administrative quality because of the complexity introduced into the claim determination process. Therefore, any comparison of quality measures across states must be made with care and attention to state-specific rules governing eligibility, as well as other aspects such as benefit allowance rules.

Additionally, policies governing eligibility or benefit allowances change frequently. For example, in response to the great recession of recent years, some states have substantially changed their eligibility criteria in an effort to limit program expenditures. In early 2012, Florida instituted a "skills test" as a requirement for eligibility, which involves a 45 question quiz on math, reading, and research skills. Though justified by state politicians as a step towards improving workforce reemployment success, the test has received attention from media and labor groups claiming the test significantly limits access to benefits. The Department of Labor has initiated an investigation into the legality of this exam as an eligibility requirement. The introduction of such eligibility requirements, as well as the costs associated with a DOL investigation, may be expected to affect administrative performance. This is one example of the complications experienced in the claims determination process.

B.6.1 Payment Promptness

The emphasis of the DOL's UI Performs Core Measures is on the timeliness of determinations and payments (US Department of Labor 2016). State workforce agencies' performance is judged against the UI Performs Acceptable Levels of Performance (ALPs), many of which explicitly deal with time lapse performance. Timeliness or promptness is a straightforward measure of administrative quality and is less costly to measure than some alternative quality measures.

Figure B.13 demonstrates one timeliness measure from 1997 to the present,

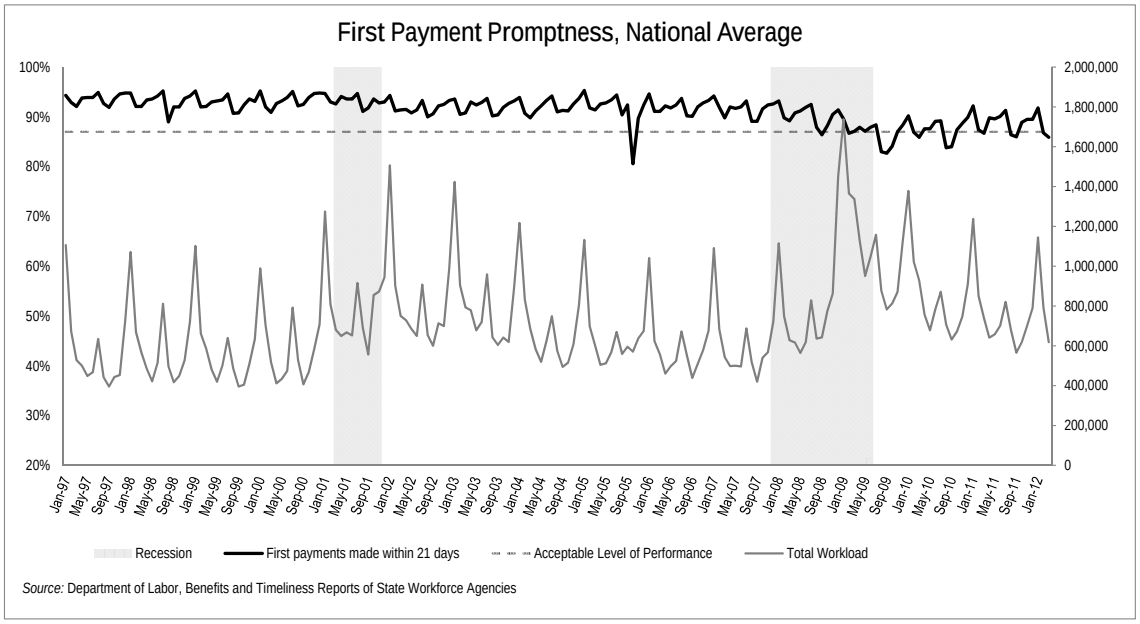


Figure B.13: National First Payment Promptness

the national average monthly first payment promptness rate, which is the percentage of first payments made within 21 days of the claim date. These data are made available through the Employment & Training Administration (2012). Periods of national economic contraction are indicated by the vertical grey bars (as determined by Bureau of Economic Analysis 2012). For demonstration, the national total workload (number of first claims made) is measured on the secondary vertical axis. The important thing to note from this chart is that the national average promptness of first payments has declined and fallen below the ALP of 87% in the period beginning approximately with the most recent recession. The cause of this decline in timeliness is likely to do in part with the increase in initial claims made during the same period; increases in claims during previous recessions is associated with a decline in payment promptness (Vroman 2011).

As a first step in considering the variation in administrative quality across

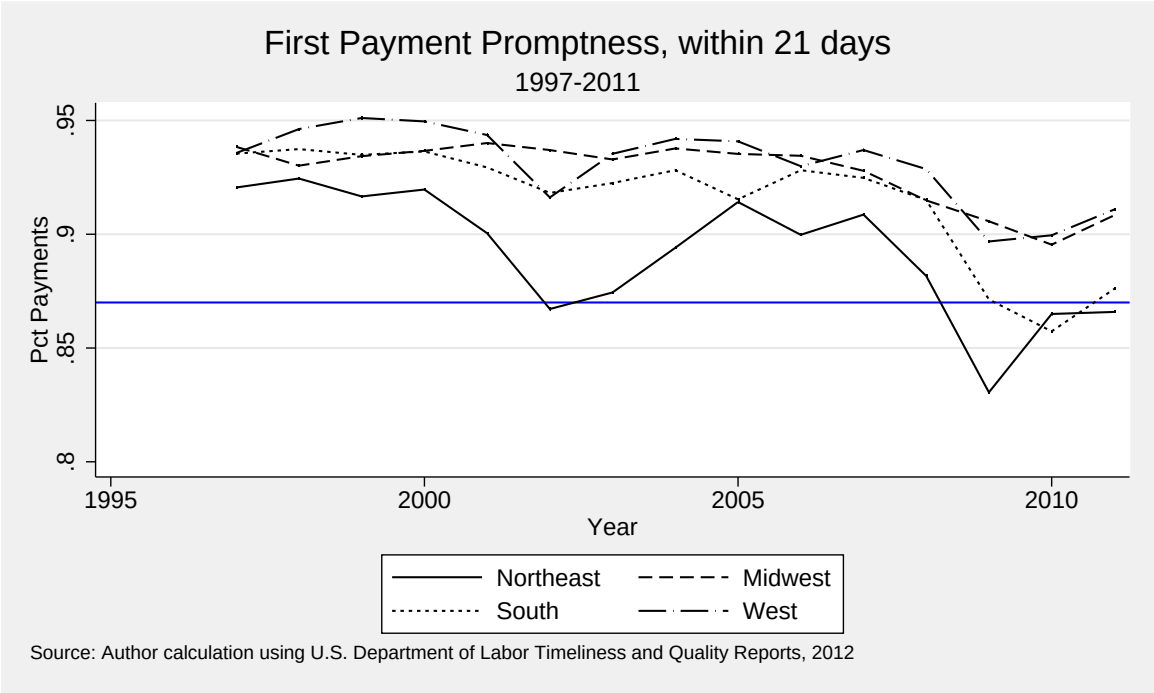


Figure B.14: First Payment Promptness, by Region

the U.S. states, Figure B.14 shows the same first payment promptness rate by geographic region (using data from Employment & Training Administration 2012). The Northeast tends to rank lower than other states in payment promptness, but all regions have experienced a downturn in first payment promptness since approximately 2007. Although the West, Midwest, and South have tended to cluster together in their promptness rates and trend over the period, it seems that the South has experienced a greater fall in payment promptness relative to the other two regions in the recent years of the recession.

There are several potential factors which might explain variation in region or state promptness. First of all, regional differences in unemployment volumes might be a factor in variation of promptness levels or changes. It is also important to note that the stringency or complexity of eligibility rules is certainly a factor in state

first payment promptness rates. States with more complex or strict rules governing UI eligibility or benefit allowances should be expected to take longer to make payments, or determinations simply because it should take claims agents longer to review the claim. Additionally, Vroman (2011) finds that time lapse performance tends to be worse in larger states relative to smaller states. Finally, the method of claims filing plays a roll in promptness, as Vroman (2011) also demonstrates. The introduction of telephones and internet claims applications, in addition to in-person claims, has facilitated a significant improvement in payment promptness since 1997.

In addition to the first payment promptness rate considered here, additional time lapse measures include continued claims payment promptness, non-monetary determination (separation and non-separation), new employer status determination, and various other appeals decision promptness. The DOL monitors each of these as ALPs, in addition to numerous other time lapse measures which are not utilized as part of the performance core measures. A more in-depth consideration of these alternative timeliness measures of administrative quality is beyond the scope of this introductory chapter. First payment promptness is an especially important quality measure because it affects every claimant in the UI program, whereas other alternative timeliness measures may not represent aspects of administrative quality that are relevant to as many individuals.

B.6.2 Payment Accuracy

The second aspect of administrative quality discussed here is that of payment accuracy, or improper payments. In the case of underpayments or wrongfully denied claims, the quality of payment accuracy has potentially significant negative impacts on the wellbeing of Americans and deserves attention for this reason. Further, payment accuracy is of great interest to public

administration scholars because it has the potential to identify errors made by public agency employees.

B.6.2.1 Benefit Accuracy Measurement

The OUI implemented an improper payment detection system beginning in the 1980s named Benefit Accuracy Measurement (BAM), this program has since become the template used by many other public programs seeking to establish such monitoring systems. Subject to rules set by the DOL, each state administers a random audit of paid and denied UI claims each week and is required to reinvestigate each aspect of the claim and determination to establish accuracy of payment. Each weeks' results from the BAM Paid Claims Accuracy (PCA) and Denied Claims Accuracy (DCA) statistical samples are then used by the DOL to establish estimates for states' monthly or annual improper payment or integrity rates. Only claims made for regular state unemployment compensation are audited, which means that all UCX, UCFE, EB, and EUC claims are excluded from BAM audits and thus from all improper payment estimates. Though the rules governing statistical sampling are set by the DOL, each state's SWA manages the administration of BAM.

Though it is tempting to use states' integrity rates, or error rates, to compare the quality of administrative performance, this is not a strictly valid comparison to make because states vary widely in their eligibility requirements, some being more strict, detailed, or technical than others. Also, integrity rates are a function of the quality of the random audit and investigation process. States with higher quality performance management investigation programs may report higher error rates than those states with lower quality audit programs simply because the program is better at detecting errors made. This means that any comparison of

states' program integrity rates must compare trends, rather than absolute values, and any such analysis must consider the possibility than an increase in reported errors may be due either to a decline in determination quality or an improvement in BAM quality. The data on quality and error rates reported by the BQC and BAM programs is likely of higher quality, longer time-series, and more detailed than most other social transfer program, and yet it is rife with potential pitfalls for the unwary researcher.

It should also be made clear that overpayment rates and underpayment rates are subject to different validity threats. Reported underpayments are underestimated, first, because they do not include estimates of wrongfully denied claims. Second, underpayment rates are likely to be extremely underestimated if the population of insured unemployed is considered. Recipiency rates are never 100%, meaning that the proportion of unemployed who apply for benefits is well below the proportion of unemployed who are actually eligible for benefits. Underpayment rates are typically estimated to be about 2% of paid claims (Employment Training Administration 2015). However, this is figure is substantially underestimated.

The Annual Report Rate is an estimate of the overall over/underpayment rate made by a state based on PCA. More specifically, the Annual Report Rate is an estimate that "includes fraud, nonfraud recoverable overpayments, nonfraud nonrecoverable overpayments, official action taken to reduce future benefits, and payments that are technically proper due to finality or other rules" (Office of Unemployment Insurance 2012). Figure B.15 shows state Annual Report Rates, averaged by region for the period 1988-2010, using data from Office of Unemployment Insurance (2012). The average Annual Report Rate for all states over this period is 9.7%, which means that just under ten percent of payments

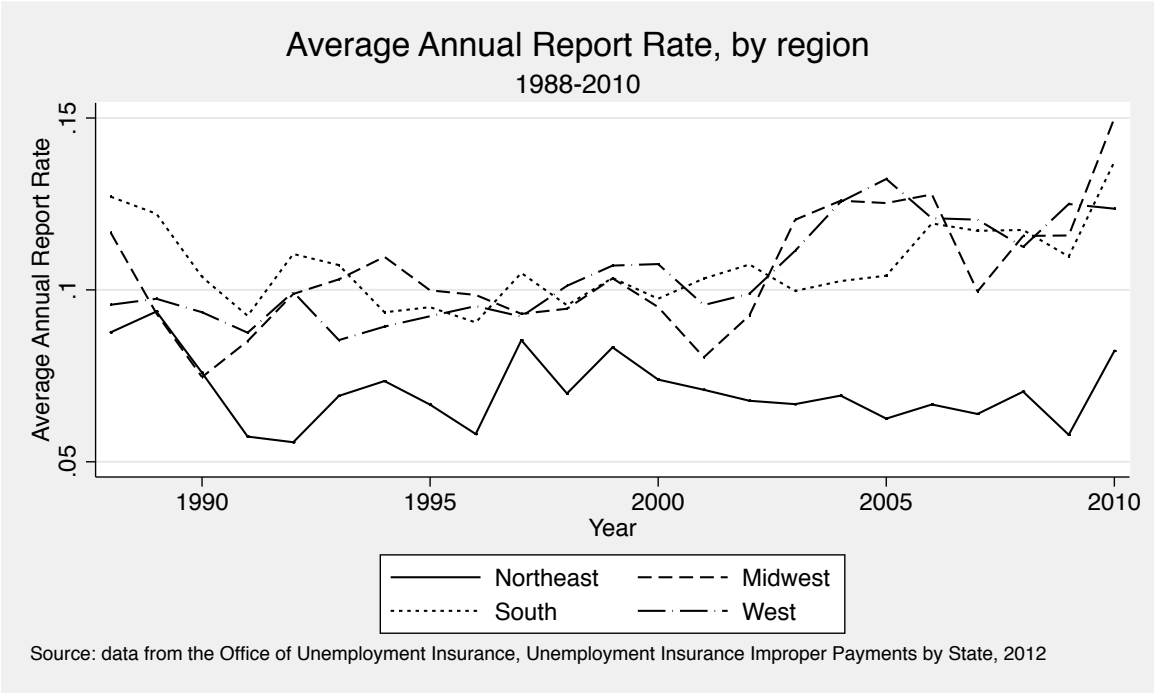


Figure B.15: Annual Report Rate, by Region

made by UI agencies are estimated to be improper. One should be careful in drawing conclusions based on comparisons made using this chart, however, it is interesting to note that in recent years, all regions have experienced an increase in the Annual Report Rate. This may suggest that increases in claims volumes associated with the great recession of recent years has contributed to a higher aggregate improper payment rate; the estimated total improper payment rate in 2011 was 12% (Office of Federal Financial Management 2012). The divergent trend between the Northeast and the rest of the regions beginning in the early 2000s is also interesting, and deserves greater consideration in future work.

For demonstration purposes, Figure B.16 reports the average state Annual Report Rate for the entire period 1988-2010. This chart is useful in demonstrating the variation in report rates across states, and it should not be taken as a direct

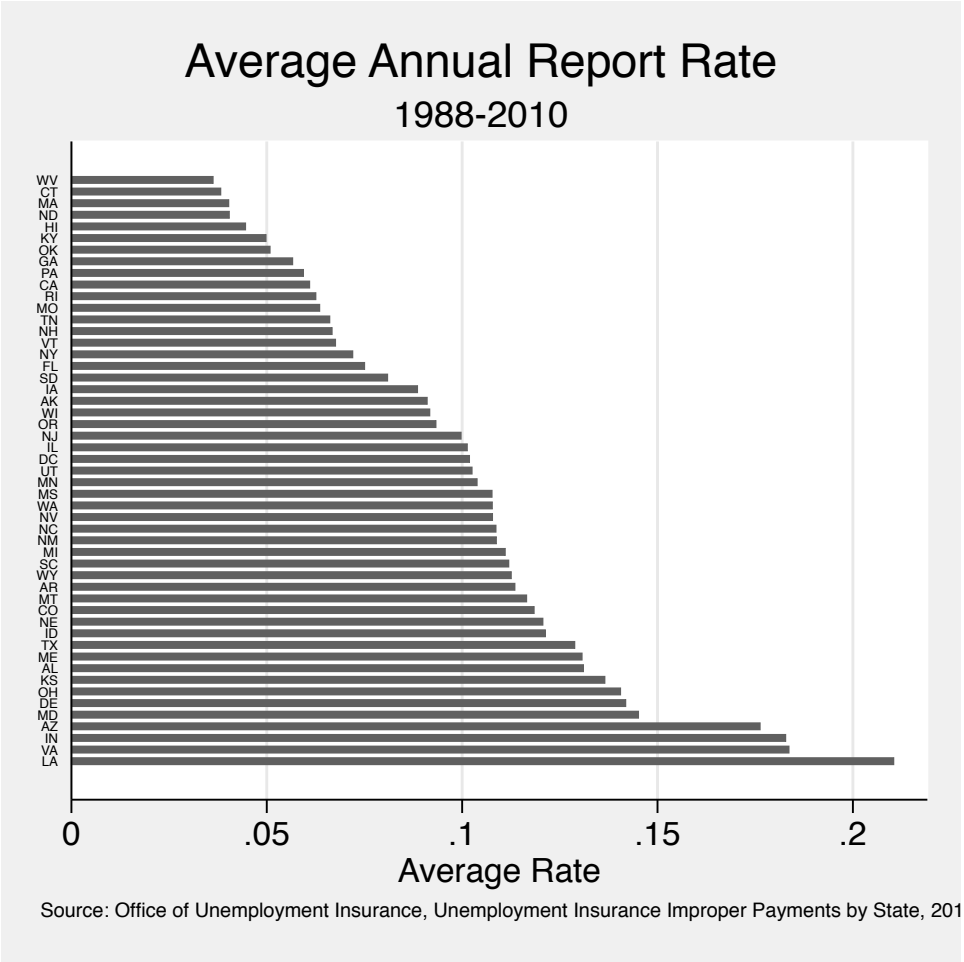


Figure B.16: Annual Report Rate, by State

ranking of states by quality. Also note that this report rate considers only accuracy of paid claims and does not reflect the accuracy of denied claims, which is arguably of equal interest. Additional estimates of improper payment rates are generated by the DOL and BAM, but are not fully considered here, brief list of such rate estimates is included in the Appendix.

B.6.2.2 Improper Payment Information Act

The passage of the 2002 Improper Payment Information Act (IPIA) has made reporting of estimated improper payments (equivalent to BAM's PCA system) a requirement for agencies making claims payments using federal funds. The IPIA requires improper payment reports across many agencies and programs, see Figure B.17 for a sample of programs' reported improper payment rates a percent of total program outlays (calculated using data from Office of Federal Financial Management 2012). However, direct comparison of improper payment rates for the purpose of making inferences about administrative or programmatic quality is not valid because programs vary in eligibility rules, administrative structure, and other important factors that can affect error rates.

B.6.3 Reemployment

The last aspect of administrative quality considered here is the rate of reemployment, which is an indirect measure of the service quality provided by state UI programs. Facilitation of reemployment is an explicit objective of state UI programs (US Department of Labor 2016). Quality of public service with regard to this outcome measure is important for it's direct bearing on the wellbeing of Americans. Also, because facilitation of reemployment is a goal of UI programs as well as other training and employment services performed by SWAs, this particular quality measure potentially indicates quality of networking across public

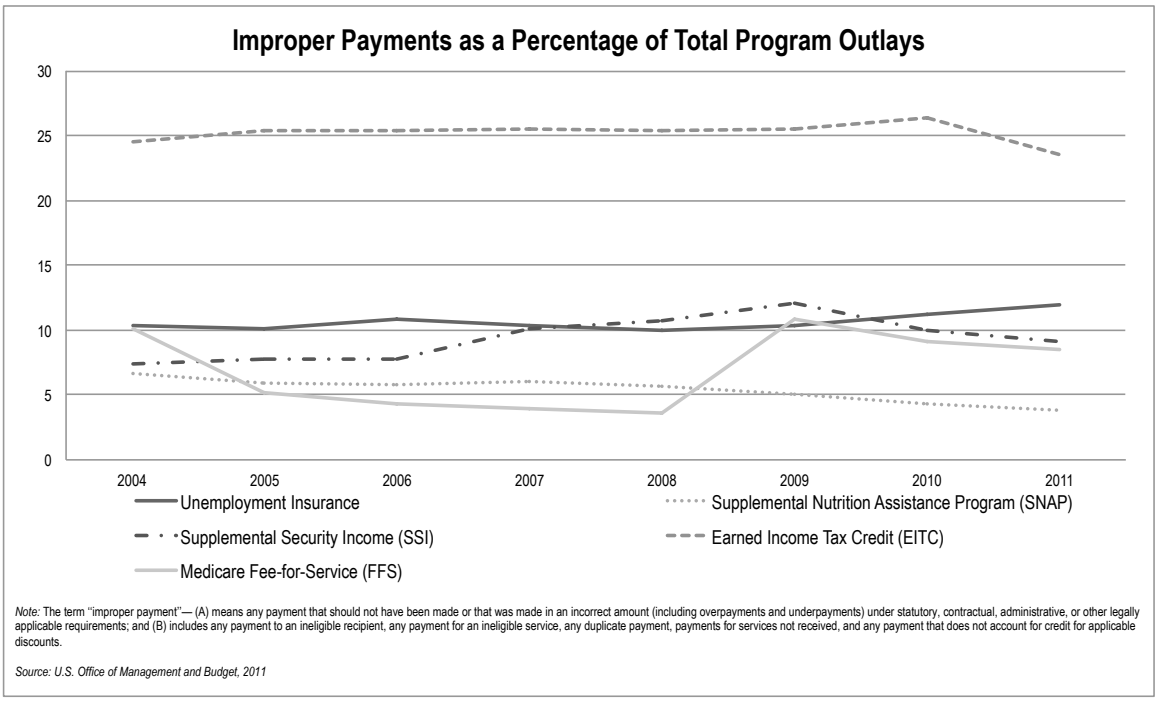


Figure B.17: Improper Payments as a Percent of Total Program Outlays

organizations. It is important to note, however, that this quality measure is strongly dependent on state economies.

The standard reemployment measure used by the DOL is the percent of UI claimants who are reemployed within the quarter following the quarter in which they received their first UI payment (US Department of Labor 2016), and ALPs are defined according to local state economic conditions. In 2010, state facilitation of reemployment rates ranged from a low of 35.5% in New Mexico to a high of 77.2% in Idaho (US Department of Labor 2016). However, directly comparing reemployment rates without controlling for local unemployment characteristics is not a valid comparison of program or administrative quality. For this reason, my analysis refrains from presenting additional descriptive statistics or charts.

B.7 Conclusion

The nationwide unemployment insurance program budget exceeds $50 billion a year. Ensuring that the quality of service provided by such a program should be a priority for scholars and policy analysts. A crucial step in this process is an understanding of the structure of funding, influence, and power relations within the UI system, and this chapter has served to contribute to such an understanding. The Department of Labor exerts critical influence on many aspects of state UI programs because it plays a role in the funding of those aspects, but states retain sufficient autonomy over their programs to create unique tax, benefit, and eligibility rules. The resulting 53 unique programs thus have different concerns and political challenges.

Two important dimensions of unemployment insurance programs are the generosity of program benefits and the quality of administrative performance. These aspects of the UI system are important, again, because they affect the lives of Americans interacting with the program. States, and regions, in the U.S. vary along the different measures of generosity and performance quality, and this variation deserves greater attention from academic scholars in order to better understand the causes.

B.8 Additional Material

B.8.1 Definition of Geographic Regions

As defined by U.S. Census Bureau (2012), the regions referred to in this chapter consist of the following:

- **Northeast**: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, New Jersey, New York, and Pennsylvania

- **South**: Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, Alabama, Kentucky, Mississippi, Tennessee, Arkansas, Louisiana, Oklahoma, and Texas
- **Midwest**: Illinois, Indiana, Michigan, Ohio, Wisconsin, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota
- **West**: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming, Alaska, California, Hawaii, Oregon, and Washington

B.8.2 Aggregated Payment Integrity Measures Estimated by BAM

1. **Operational Rate** - "The BAM operational overpayment rate includes those overpayments that the states are reasonably expected to detect and establish for recovery – fraud and nonfraud recoverable overpayments, excluding work search, employment service (ES) registration, base period wage issues and miscellaneous causes, such as benefits paid during a period of disqualification, redeterminations, and back pay awards" (Office of Unemployment Insurance 2012).
2. **Annual Report Rate** - "The annual report rate includes fraud, nonfraud recoverable overpayments, nonfraud nonrecoverable overpayments, official action taken to reduce future benefits, and payments that are technically proper due to finality or other rules. The rate excludes payments determined to be 'technically' proper due to law/rules requiring formal warnings for unacceptable work search efforts. All causes and responsible parties are included in this rate. When overpayments attributed to another SWA are excluded from individual state results" (Office of Unemployment Insurance 2012).

3. **Agency Responsibility** - "This rate includes overpayments for which the SWA was either solely responsible or shared responsibility with claimants, employers, or third parties, such as labor unions or private employment referral agencies. The rate includes fraud, nonfraud recoverable overpayments, nonfraud nonrecoverable overpayments, official action taken to reduce future benefits, and payments that are technically proper due to finality or other rules" (Office of Unemployment Insurance 2012).

4. **Fraud** - "The definition of unemployment compensation fraud varies from state to state. Because fraud determination criteria and thresholds vary throughout the SWAs; the individual state rates reflect these differences. The rate includes all causes and responsible parties." (Office of Unemployment Insurance 2012)

5. **Underpayment Rate** - "This rate includes payments that the BAM investigation determines were too small. All causes and responsible parties are included in this rate. It includes errors where additional payment is made or those errors that are technically proper due to finality rules or technically proper due to rules other than finality" (Office of Unemployment Insurance 2012)

6. **Improper Denial Rate** - "he adjusted improper denial rates for monetary denials, separation denials, and nonseparation denials" (Office of Unemployment Insurance 2012).